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Report of the Committee on Taxation Study...

[Pittsburgh]

[1916?]

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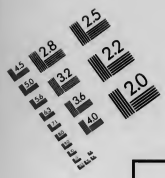

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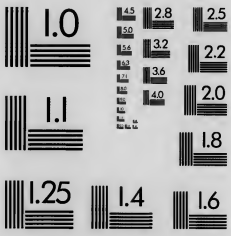

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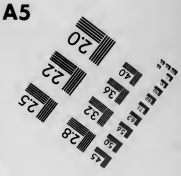

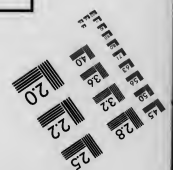

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Report of the Committee

ON

Taxation Study

TO COUNCIL

OF THE CITY OF PITTSBURGH,

PENNSYLVANIA.

REPORT OF

The Committee on Taxation Study

TO COUNCIL

OF THE CITY OF PITTSBURGH,

PENNSYLVANIA.

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June 19 A.S.C.

LETTER OF TRANSMITTAL

Honorable, the Mayor, the City Controller and the President and Members of Council, City of Pittsburgh.

Sirs:

Pursuant to Resolution No. 29 of Council, File No. 71, approved February 16, 1916, which provided as follows:

> RESOLVED, That the Mayor, in conjunction with the City Controller and the President of Council, be requested to appoint a committee of fifteen citizens to be known as "The Committee on Taxation Study."
>
> The functions of said committee shall be to study the tax laws of the State as they affect the City, whether administered by the State, County, City or School District, with special reference to the kind of property taxable, the methods of determining valuations, and the division of tax funds by the State between the political divisions thereof, and to make such recommendations looking to a change of existing laws and methods as in its judgment will result in a more equitable distribution of the burdens of taxation between the various political divisions of the State and between the property owners thereof.
>
> The committee shall submit reports to the Mayor and Council from time to time at its pleasure and shall submit a final report of its conclusions not later than November 15, 1916.
>
> The members of the committee shall serve without remuneration. but shall be reimbursed for any expenses incurred as a result of the committee's investigations.

Your Committee begs to submit the following Report:

Upon call of the Mayor, the Committee met on February 29, and, after brief addresses by Mayor Armstrong and Dr. Kerr, President of Council, organized electing Mr. William Price, Chairman. A Committee on Plan and Scope was appointed consisting of Mr. J. T. Holdsworth, Chairman, and Messrs. Herbert L. May, Henry P. Haas, H. A. Phillips aand W. H. Walker. At a later meeting Mr. Holdsworth was elected Vice Chairman, and Mr. D. W. Alexander was appointed Secretary of the Committee.

The following sub-committees were appointed, in addition to the Committee on Plan and Scope:

Finance Committee: Eugene S. Reilly, Chairman; H. P. Haas, W. H. Walker.

Planning Committee: J. T. Holdsworth, Chairman; Herbert L. May, W. D. George, A. H. Willett, John Walker.

Committee on Public Hearings: Eugene S. Reilly, Chairman; Marion G. Bryce, John Dimling, Henry P. Haas, H. A. Phillips.

Committee on Administration: W. H. Walker, Chairman; Marion G. Bryce, William J. Kelly, Julian Kennedy, George Seebick.

Committee to Formulate Report: J. T. Holdsworth, Chairman; Marion G. Bryce, Herbert L. May, W. D. George, W. H. Walker, A. H. Willett.

Mr. Wilson A. Shaw and Mr. S. P. Trimble, who found it impossible to give the necessary time to the work of the Committee, resigned, and Mr. Julian Kennedy and Mr. Marion G. Bryce were appointed to fill the vacancies.

Stated meetings of the full Committee were held each week from March 4 to July 11, with several extra meetings at the call of the Chairman. The several sub-committees met more frequently, sometimes two or three times per week, and some members of the Committee to Formulate the Report continued their work throughout the summer and autumn.

Public hearings were held in Council Chamber, City Hall, on June 20, 21, 22, to which all the leading business and civic organizations known to the Committee as interested or likely to be interested in taxation matters were invited by letter to send representatives. Announcement was made in the daily newspapers of these public hearings and all interested were invited to attend and to express their views. About twenty persons asked for and received a hearing, some as representatives of organizations or associations, others in their capacity as taxpayers or citizens. Though the newspapers gave the widest publicity to these meetings, the number of citizens sufficiently interested in questions of taxation to appear and testify was disappointingly small.

A considerable number of city, county and state officials appeared upon invitation before the Committee and many valuable suggestions were received. Among those who thus appeared may be mentioned: Major A. W. Powell, Auditor General of the Commonwealth; Mayor Joseph G. Armstrong; City Controller E. S. Morrow; Chief City Assessor Thomas J. Hawkins; H. S. Breitenstein, of the Controller's office; M. E. Moffett, of the City Bureau of Costs; County Commissioners Frank J. Harris, Addison C. Gumbert, Gilbert F. Meyer, and members of their staff, former Mayor William A. Magee, and Mr. C. Elmer Bown. To these and to many other citizens of Pittsburgh, as well as officials of other cities who have helped the Committee by advice and suggestions, grateful appreciation is herewith extended.

It is a matter of deep satisfaction to your Committee that while varying views and opinions by individual members on various details naturally developed in the course of our discussions and deliberations this Report is submitted with the approval of the members whose names are subjoined.

WILLIAM PRICE,
Chairman;

J. T. HOLDSWORTH,
Vice Chairman;

MARION G. BRYCE,
JOHN DIMLING,
W. D. GEORGE,
WILLIAM J. KELLY,
JULIAN KENNEDY,
HERBERT L. MAY,
H. A. PHILLIPS,
EUGENE S. REILLY,
GEORGE SEEBICK,
JOHN WALKER,
W. H. WALKER,
A. H. WILLETT.

November 13, 1916.

FOREWORD

Alike in state and in local fiscal affairs there is increasing difficulty in making income meet expenditures, and efforts are constantly being made to find new sources of revenue to meet the steadily expanding needs of government. That there shall be such continuous expansion in every progressive community is inevitable; that the people governed, the people who are constantly requiring of their government additional services and advantages, must be prepared to meet the expense involved, is equally inevitable. The expense of government must be met by taxation. The attempt to devise a system of taxation which will be at once just, equitable, impartial and elastic is commanding the best thought of tax officials, economists and legislators everywhere.

Under the tax system which for years has prevailed in Pennsylvania there has been a fairly sharp line drawn between the sources of revenue for state purposes on the one hand and for local purposes on the other. Long ago the State abandoned the principle of taxing real estate, leaving to the local governments this source of revenue, and relying mainly upon corporation taxes, the inheritance tax, and license fees of various kinds.

Inasmuch as more than two-thirds of the total amount of taxes levied in Pittsburgh for city purposes alone is collected from real estate owners, it is but natural that they should be the chief objectors to the payment of taxes. They complain that practically the entire burden of operating the city, county and school system has been loaded upon their shoulders and that this burden has become so heavy that they are scarcely able to carry it. Constantly the question is raised: Why not tax the owners of other forms of property as well as real estate, and make them contribute their share to the support of a government which functions for the benefit of all the people? Why should not the owners of stocks and bonds, bank deposits, stocks of merchandise, the raw materials and finished products owned by manufacturers, money and credits carried as bills receivable or accounts receivable, household furniture, jewelry, and various other evidences of wealth or tax-paying ability, be levied upon for local taxation purposes as well as real estate?

An adequate answer to these questions requires some analysis. In the first place it must be remembered that under the system of separating the sources of state and local revenues, which has long obtained in Pennsylvania, and which has been envied and in some cases copied in part by other states, many of these sources of revenue are now being utilized by one or other of our taxing authorities. This is fully developed in the discussion of the taxation systems of the various governments, state and local, in subsequent parts of this Report.

As shown elsewhere, we in Pennsylvania have been free from the gross inequalities and iniquities of the general property tax and from many of the petty, annoying, and unfair exactions inevitable in the taxation of personal property of the kinds and character suggested in the foregoing questions. Economists and administrators of tax laws are practically unanimous in agreeing that the attempt to assess and collect a tax upon personal property has broken down completely. No assessor, however competent or honest in purpose, can accurately assess the value of stocks of merchandise or book accounts by any system open or likely to be open to him, nor can he find and evaluate securities in the lock boxes of their owners. Even in Pennsylvania where the low rate of 4 mills on the dollar is levied upon intangible personal property, it is well understood that, aside from such intangibles as mortgages, trusts, etc., which are matters of public record and so open to the assessor, voluntary returns of taxable personal property by the owners are the exception rather than the rule. And in states where personal property is taxable at the same rate as real estate, the assessment of tangible personalty such as household furniture, jewelry, etc., is commonly the merest guess work, and intangible personalty in most cases entirely escapes the tax. That a tax upon tangible personal property would yield

sufficient revenue to justify the expense of assessment and the annoyance and injustice accompanying its collection, your Committee cannot believe. Nor can it believe that the enlightened citizenry of Pennsylvania will consent to return to a taxation device long ago abandoned in this State and discredited by experience in every other state. To do so would be to turn back the hands on the clock of taxation progress a full half-century.

Aside from the injustice, the relative expensiveness, and the impracticability inhering in the personal property tax this phase of the question presents itself: Would owners of real estate really be benefited if some of the taxes now collected from them were shifted to merchants and manufacturers by means of a tax upon their stocks of goods, raw materials, book accounts, etc.; to the occupants of houses, apartments and hotels; to the owners of stocks and bonds; and to individuals on their furniture, jewelry, wearing apparel, etc.? The value of real estate is measured by its rent-producing possibilities. The maximum rent obtainable is determined substantially by the rent paying ability of the owner or user. This ability is in turn based upon the economic advantages afforded by his location or local environment; and these advantages are reduced measurably by a tax upon personal property and enhanced by the absence of such a tax.

It should be remembered that personal property, unlike real estate, is a form of property to which there is seldom added any community value. A tax upon it merely increases the cost of living, or of conducting business, thereby reducing in some degree the capacity of the individual to pay rent for the use of property, which in turn tends to reduce the value of real estate. In the last analysis, therefore, a personal property tax becomes indirectly a tax or incumbrance upon the real estate itself.

An income tax, such as hereinafter proposed, is not open to this objection, since it is a tax upon net, not gross, income or profits.

Not infrequently the suggestion has been offered that the hundreds of people who live in the suburbs, but who conduct their business or practice their professions in the city, should be made to contribute their share to the upkeep of the city which provides for them substantially all the protection, services and advantages which its own citizens enjoy. Should not these classes, many of whom have large incomes from salaries, business, or professional exertions, be taxed to support the city?

It is of interest to note in this connection that one of the objects sought by at least some members of the New York City Special Committee on Taxation (1916) in proposing a presumptive income tax, was to reach the very large class of suburbanites who ply their callings in that city, but live elsewhere, and contribute nothing to the support of the city. This proposed ability or presumptive income tax, which in the final report of the New York Committee was abandoned in favor of a straight income tax, was designed to reach income indirectly and by outward evidences, utilizing certain facts of expenditure as an index of income. It included three parts: (1) a habitation tax, to be levied upon persons occupying houses or apartments, proceeding upon the theory that what a man spends for rent is a rough indication of his ability to contribute to the public burden; (2) an occupation tax on the premises occupied for business or for securing a livelihood, levied on the basis of the annual rental value of the premises; (3) a salaries tax on all salaries paid or received, except those paid by the Federal government. Thus business incomes were to be reached by the occupation tax, salaried income by the salaries tax, and other incomes by the habitation tax. No one would be required to pay more than one of these taxes. As noted above, the New York Committee finally declared in favor of the State income tax as recommended by the State Tax Commission.

Your Committee approves the idea of compelling the suburbanite who gains his livelihood within the city to contribute his fair share toward the support of the city government. It does not believe, however, in any system of tolls, business, or presumptive income taxes such as

have been proposed to meet this situation. It believes that these suburbs which live upon the city and enjoy substantially all of its advantages should be annexed, or consolidated with the city in a metropolitan district. Then all alike will participate in the advantages and the tax burdens of the municipality; and, incidentally, the way will be opened for the projection and execution of those larger civic plans involving drainage, sanitation, transportation, etc., which, sooner or later, the city and the district must undertake.

Universal experience lends its authority to the practice of raising the bulk of local revenues from the taxation of real estate, since this form of property represents value largely created by the community itself. This is so well understood among tax experts and administrators that it seems unnecessary to discuss it.

Is there, then, no possible relief from the increasingly heavy burden of taxation which real estate is being called upon to pay? Your Committee, while recognizing clearly that real estate must and should bear the greater burden involved in the support of our city government, is of the opinion that certain readjustments and changes in the taxation system, as outlined in this Report, will bring some relief to real estate, and result in a more equitable distribution of the tax burden. Some of these changes and readjustments will require legislative sanction or, in some instances, revision of the Constitution; others, pertaining to measures and policies of a purely local or administrative character, can be made effective at once.

Before presenting its recommendations relating to a readjustment of the sources of revenue for state, county and city purposes, your Committee desires to state with unmistakable directness that an equitable distribution of the *necessary* burden of taxation must presuppose a scientific and economical administration of the tax system both as to the assessment and the collection of taxes, and, of no less importance, the exercise of rigid economy and the highest measure of efficiency on the part of public officials charged with the duty of expending the revenues thus raised. That these essentials to equity have not yet been attained by city, county or state governments, is attested by evidences so manifest that they cannot be gainsaid. The reduction of waste in public expenditures would provide an additional source of revenue of very considerable proportions. The prime need is for economical and efficient administration in our several governments.

SUMMARY OF RECOMMENDATIONS

As a result of its investigations and deliberations, the Committee unites unanimously in the following recommendations and suggestions:

1. Retention of the tax upon real estate in its present form, under the so-called graded tax law.
2. Adoption of a more scientific, equitable, and economical system of assessments, including:
   (a) Adoption of section, block and lot system.
   (b) Consolidation in one board of the duties of assessing all property within the county, and the use of these assessments by all taxing bodies within the county.
   (c) Annual instead of triennial assessments.
   (d) Greater publicity in assessment and taxation matters.
3. Consolidation of county and city tax collections.
4. Immediate adoption of a comprehensive city plan, including the "zoning" principle, in order that existing realty values may be conserved.
5. Absorption of outlying suburbs whose inhabitants make their living in the city, but now pay no taxes for the city privileges they enjoy; and creation of a metropolitan district.
6. Adoption of principle of excess condemnation in making public improvements, especially in laying out of new streets and in widening or extending old ones.
7. Improvement in the collection of delinquent taxes.
8. Exemptions of churches, schools, charitable institutions, etc., should be taken out of the hands of the assessors and be put in those of the Controller,—such exemptions to be granted only upon petition made annually.

   These exempt properties should be subject to assessment for local improvements.
9. Local real estate of public utility corporations now exempt should be taxed at same rate as other real estate, but assessed preferably by State assessors.
10. Water Department as a social or community enterprise should make no profit, but should be self-sustaining.
11. Special services (permits, inspection, special police, etc.), rendered by the city, accruing to the benefit of private concerns or individuals, should be made self-sustaining.
12. Larger revenues should be obtained from the rental and use of city properties,—wharves, markets, etc.
13. Increase of the automobile license tax by 50 per cent, and distribution of the *total* proceeds, 30 per cent to the city, 30 per cent to the county, and 40 per cent to the state.
14. The extra $100 liquor license tax now paid to the State should accrue to the city.
15. Return to the city of the major part of the proposed State income tax.
16. Abolition of the mercantile license tax, which is wrong in principle and necessarily bad and costly in practice. For regulative purposes a flat registration tax for mercantile concerns may be desirable.
17. Abolition of the occupation tax, which costs more to assess and collect than the amount of the collections, and the substitution of a flat registration or "voting" tax.
18. Abolition of the personal property tax as soon as a graduated income tax, or a graduated direct inheritance tax, or both, can be secured, with provision for a return of part of the income tax to the counties and cities.
19. Abolition of the exemption of machinery in the city.
20. Continuance of the present practice of deriving State revenues mainly from the tax on corporations, but with some important changes including:
   (a) Taxation of savings banks without capital the same as those with capital.

   (b) Removal of alternative tax of 10 mills on par value of shares of bank stock, which discriminates against the small bank. All banks should pay the 4-mill tax on actual value.
   (c) So long as corporation taxes are based on the value of capital stock, such value should be measured by some uniform method for all types of corporations.
   (d) The exemption which manufacturing corporations enjoy on that part of their capital stock employed in manufacturing in the State should be reduced gradually, say one-fifth each year, until these corporations pay the same tax as other corporations, *for the privilege of conducting their operations in corporate form.*
21. Adoption of a direct inheritance tax including the principle of graduation, said tax to accrue wholly to the State.
22. Careful study of tax limit laws and experience in other states with a view to determining the future policy of Pennsylvania in this respect.
23. Adoption of a graduated State income tax upon persons only at the outset, but later to be applied to corporations, the proceeds to be distributed among the several governmental units—State, county (boroughs, townships and cities) upon a carefully worked-out basis.
24. Establishment of a State Tax Commission or Commissioner to administer the income tax and other tax laws.

GRADED TAX LAW

This law, enacted by the 1913 session of the Legislature, provided as follows:

DEPARTMENT OF ASSESSORS.

This department shall consist of no less than five nor more than nine persons, who shall have been residents of the city for at least ten years; all of whom shall not be of the same political party. The number of assessors in this department shall be designated by ordinance; and they shall, from time to time, make all valuations for purposes of municipal taxation.

They shall classify all real estate in the city in such a manner, and upon such testimony as may be adduced before them, as to distinguish between the buildings on land and the land exclusive of the buildings, and to certify to the councils of said city the aggregate valuation of city property subject to taxation. It shall be the duty of said councils, in determining the rate for the years one thousand nine hundred and fourteen and one thousand nine hundred and fifteen to assess a tax upon the buildings equal to nine-tenths of the highest rate of tax required for said years; and for the years one thousand nine hundred and sixteen, one thousand nine hundred and seventeen and one thousand nine hundred and eighteen, to assess a tax upon the buildings equal to eight-tenths of the highest rate of tax required to be assessed for these years; and for the years one thousand nine hundred and nineteen, one thousand nine hundred and twenty and one thousand nine hundred and twenty-one to assess a tax upon the buildings equal to seven-tenths of the highest rate of tax required to be assessed for those years; and for the years one thousand nine hundred and twenty-two, one thousand nine hundred and twenty-three, and one thusand nine hundred and twenty-four, to assess a tax upon buildings equal to six-tenths of the highest rate of tax required to be assessed for those years; and for the year one thousand nine hundred and twenty-five, and for each year thereafter, to assess a tax upon the buildings equal to five-tenths of the highest rate of tax required to be assessed for the year one thousand nine hundred and twenty-five, and for each year thereafter, respectively, so that upon the said class of real estate of said city there shall, in any year, be two rates of taxation.

They shall triennially make a valuation for all purposes of municipal taxation, and shall have the power to administer oaths. They shall have the power to make a new assessment in any ward or wards they deem necessary, in any subsequent year, other than triennial years, in the manner prescribed by law for the triennial assessment. Any property owner shall have the right to be heard by the full board, sitting as a board of revision, on appeal from any valuation. The assessment, as aforesaid, shall remain the lawful assessment, for purposes of city taxation, until the next assessment. Nothing herein contained shall be construed to repeal the act of July nine, one thousand eight hundred and ninety-seven, providing for the classification of real estate and other property for purposes of taxation, and for the election of assessors and prescribing the duties thereof, in cities of the second class, except so far as the same may be inconsistent herewith.

The councils shall, by ordinance, make all further needful rules and regulations for the government of this department.

This law first affected the city tax rate, as determined by city council, in the year 1914. In that year and in the years 1915 and 1916 the millages were as follows:

	City Tax		School Tax		County Tax		Total Tax	
	Land	Bldgs.	Land	Bldgs.	Land	Bldgs.	Land	Bldgs.
	Mills	Mills	Mills	Mills	Mills	Mills	Mills	Mills
1914								
Old City	9.40	8.46	6.00	6.00	2.75	2.75	18.15	17.21
North Side	11.60	10.44	6.00	6.00	2.75	2.75	20.35	19.19
1915								
Old City	10.20	9.18	6.00	6.00	2.25	2.25	18.45	17.43
North Side	14.20	12.78	6.00	6.00	2.25	2.25	22.25	21.03
1916								
Old City	12.60	10.08	6.00	6.00	3.25	3.25	21.85	19.33
North Side	12.60	10.08	6.00	6.00	3.25	3.25	21.85	19.33

Had the graded tax law not been passed the tax levy in order to produce the same revenue would have been as follows:

	Rate of Tax on Land and Buildings			
	City Tax Mills	School Tax Mills	County Tax Mills	Total Tax Mills
1914				
Old City	9.073	6.00	2.75	17.823
North Side	11.02	6.00	2.75	19.77
1915				
Old City	9.835	6.00	2.25	18.085
North Side	13.482	6.00	2.25	21.732
1916				
Old City	11.637	6.00	3.25	20.887
North Side	11.637	6.00	3.25	20.887

The total net increase in the millage on land and the total net decrease in the millage on buildings, occasioned by this law, was as follows:

	Per Cent. of Increase in Millage on Land		
	1914	1915	1916
Old City	1.8	2.0	4.6
North Side	2.9	3.3	4.6
	Per Cent. of Decrease in Millage on Buildings		
Old City	3.4	3.6	7.5
North Side	2.9	3.2	7.5

No little discussion has been indulged in regarding the merits and demerits of this law. Economic results have been prophesied by its advocates and its enemies out of all proportion to anything which such a gradual change in the tax rate could occasion. This we believe is in part due to certain other changes in laws affecting taxation in Pittsburgh, passed by the Legislature in 1911 and 1913. In the session of 1911, an act was passed repealing the classification act under which real estate was classified and taxed at different rates. Property classed as "built up" was taxed at the maximum rate; that classed as "rural" was taxed at two-thirds of the maximum rate; and that classed as "agricultural" was taxed at one-half of the maximum rate. The repealing of this law had the effect of doubling the taxes on property which had previously enjoyed an agricultural classification and increasing by 50 per cent the taxes on property which had previously enjoyed a rural classification.

The passage of the school code act by the Legislature of 1913 changed radically the distribution of the burden of school taxation, in that a uniform tax was spread over the entire city instead of a varying tax by wards, as was the old custom. Through this change the downtown section of the city, which previously had paid a school tax of only a small fraction of a mill, was compelled to contribute 6 mills. While in some instances the effect of the two changes was that one offset the other, this was by no means universally the case, and in some sections of the city a considerable increase of taxation resulted. Naturally this caused considerable irritation and some hardship to property owners.

The effects of the repeal of the classification act and the enactment of the school code have in the public mind become associated with the graded tax law and to this confusion may be traced much of the exaggerated results attributed to this law. These legislative enactments brought about long-needed improvements in our local taxation system. Though great benefits resulted to the community as a whole hardship to some was inevitable.

After the most deliberate consideration your Committee is of the opinion that the Graded Tax Law should be given full and fair trial.

ASSESSMENTS

Any discussion of the present taxation system of the City of Pittsburgh and of improvements which should be made would be incomplete without a discussion of assessments.

A cardinal principle in the fair and equitable distribution of the burden of taxation of real estate is that the tax must be so distributed that no one is compelled to pay a proportionately larger amount on the

value of his real estate than any other taxpayer is required to pay on the value of his real estate, subject to the same tax. However equitable the taxation system may be, unfairness will result if the assessment system is faulty. The laws regarding taxation are important, but equally important is the administration of these laws. Unless the administration is scientific and fairly accurate, the purpose of the legislation is defeated, and to remedy this situation new laws, wholly unnecessary, perhaps, are passed.

Furthermore, the strict enforcement of a law often discloses the fact that it is bad or defective and should be repealed. If a tax official attempts to remedy unfair or unwise tax laws by means of inaccurate assessments, the public is unable to make sound deductions as to the practical workings of such laws.

Theoretically public officials are expected to administer with exactness and completeness the laws passed by the legislature, but it is well known that many laws remain on our statute books, the enforcement of which would raise a storm of disapproval, and that in practice public officials are privileged to nullify unpopular laws. To a still greater extent do officials modify laws to conform to public opinion by so administering them as to create the least possible friction. In no department of the city government is this "discretion" exercised with greater freedom or more far-reaching effects than in the assessor's office.

For instance, long before the passage of the act exempting machinery from taxation in cities of the second class, machinery was overlooked or nominally assessed. To-day large mills and factories of very large value are on our assessment rolls at a fraction of their value, without any warrant other than that public opinion supports the assessors in the position that these industries are essential to the growth and prosperity of the community and that they must not be driven away by heavy assessments.

During the life of the so-called classification law, referred to elsewhere, when some classes of property were enjoying agricultural or rural classification with a reduction in the tax rate of 50 per cent and 33 1/3 per cent respectively, the assessors discounted this fact to some extent by a heavy assessment on rural or agricultural property and the owners were deterred from appealing by the fear of losing their classification privilege. Again, when large hotels and office buildings are built, adding to the attractiveness of the city, it is in a spirit of gratitude to the owner of the structure that the assessor approaches his duty of valuing for taxation. Again, when the graded tax law, discussed elsewhere in this Report, went into effect, there was a noticeable tendency on the part of the assessors to raise the assessments on buildings to offset the reduction in the tax rate on buildings.

In attempting to bring about a more equitable tax system the assessors' office must be the starting point. What, then, is the present situation in the city with reference to the methods of making assessments? All real estate in the city is assessed twice, once for city purposes and again for county purposes. The assessment for city purposes is made by a board of nine members appointed by the Mayor to serve four years. The Chief Assessor, designated as such by the Mayor receives $3,300 per year; each of the other members receives $2,700. The members of the board have no assurance of being continued in office beyond the term of their appointment. A member may be efficient and industrious, but if he is politically undesirable in the light of the election returns, his services are promptly dispensed with to make place for a man who may be entirely new to the work and without either experience or the education to fit him to perform satisfactorily the difficult work of valuing property. As pointed out by the City Department of Assessors in their annual report in 1912, "their work is essentially continuous and progressive and to get the highest standard of efficiency in this work, all doubt should be removed as to permanency in tenure."

The members of the Board of Assessors make their own assessments, personally viewing the property, taking into account recent sale values in the particular neighborhood, previous assessments, improvements made, and any other information obtainable. In some cases frontage determines the value; in other cases, area. Finally, however, the judgment of the assessors, supported by such information as is available to them, is the basis of the assessment. In addition to tabulating the value of each property, the assessor also records the street, number, dimensions of the property, kind of building or other improvement, the owner's name and the transfer of ownership since the last assessment. Such changes as are made from the original assessment, which is generally made by two members of the board, are made by the whole board, either upon its own initiative or upon the application of the taxpayer.

A complete assessment is made only once in three years. The efficiency of the present system of assessments can be increased by more frequent revisions. Over a period of three years considerable changes in value may occur; assessments should accurately reflect these changes.

The county assessment is made by deputy assessors appointed by the Board for the Assessment and Revision of Taxes for the county. This board consists of three members appointed by the County Commissioners to serve four years at an annual salary of $5,000. As in the case of the city board, there is no assurance of continuity of service except such as would be gained by standing strong politically with newly-elected county commissioners.

The Board for the Assessment and Revision of Taxes does not personally assess. The county is divided into districts and a deputy assessor is appointed for each district. These deputy assessors receive $4 per day. The methods used by the deputy assessors are practically the same as those outlined above for the city assessors. In addition to assessing real estate, the county deputy has also to assess personal property and occupations. Much more of the time of deputy assessors employed by the county board for work within the city is consumed in making the occupation assessment than in valuing real estate. The valuing of real estate within the city by the city board is done by nine assessors, while the county employs twenty-five men all the year round at $4 per day to duplicate the work of the nine city assessors, and in addition to assess occupations.

As in the city, so also in the county, a complete assessment is made only once in three years.

Your Committee recommends that annual assessments be substituted for triennial assessments.

Your Committee is informed that not over 30 per cent of the occupation tax is collected by the county after it is levied. The expense of levying and collecting it is out of all proportion to the revenue derived from it, and a recommendation for its abolition and the substitution of a registration tax is contained elsewhere in this Report.

A mere statement of the way properties are assessed indicates: first, wasteful duplication of work; and, second, the complete lack of modern methods, rules and equipment for arriving at uniform and equitable assessments.

Duplication

It is the sense of your Committee that nothing is gained and a great deal lost in unnecessary expense by this double assessment of the same real estate by two boards. We strongly recommend that some way be found to obviate this double assessment, either by legal enactment or by some plan of co-operation between the city and county authorities.

The assessing work for Allegheny County and all the cities, boroughs and townships within its borders could without doubt be done by one board of assessors at considerably less cost and with much more satisfactory results. Legislative authority should be sought to sanction or compel the determinations of a single board to be used as a basis for

all tax levies within the county. The term of office for the members of this board, say, six in number, should be for six years, one member's term expiring each year. One member should be appointed as president of the board, and sufficient authority should be vested in him to make him in large measure responsible for the administration of the office and the system to be used in making assessments. A sufficient salary should be paid to attract to this highly important work a man of very considerable ability and knowledge.

Your Committee further recommends that the duplication of machinery due to the city and county each maintaining offices for the collection of taxes be abolished, and that the duties of collecting city and county taxes be consolidated in one office.

Lack of Proper Methods

It is regrettable that the scientific methods and rules of assessment employed in some cities in this country are not being used in this city. The methods now used in Pittsburgh and in the county may enable the assessors to deal intelligently with small homesteads, but they are wholly inadequate when it comes to large and costly buildings, such as office buildings, mill properties, hotels, warehouses, stores and costly residences. The determination of these values is not based on accurate knowledge of cost or a proper method of determining depreciation for age, misplacement or obsolescence. Any reasonably intelligent man, with a little knowledge or realty values, can estimate with some degree of correctness the value of a cottage or of a modest dwelling; but the assessor may reach very inequitable results under the system, or lack of system, now in use by our city and county assessing bodies, when he attempts to evaluate a modern warehouse, an office building, a great hotel, a palatial residence, or buildings such as our mill and factory properties in Pittsburgh and Allegheny County. Proof of the fact that there is no proper system of assessing is to be had by comparing the results of the determinations of the two assessing bodies on the same properties, or by making comparisons of the assessments of buildings of like construction, age and desirability on a cubical foot or square foot basis. (See tables at end of this section.)

The foregoing should not be construed as a criticism exclusively of the present assessing bodies of either the city or the county. So long as land and building values cannot be measured by a yard stick or other fixed standard, just so long will evaluations be the result in the last analysis of some person's judgment; and judgments will differ. It is realized that the most faithful and efficient assessor or board has a very difficult task. But in the execution of that task the assessing body should have the benefit of the most up-to-date information and methods available.

In this connection it may be noted that if the law requires the statement of the true consideration in all deeds for the transfer of real estate, the assessor would have an additional source of information of considerable importance. Your Committee believes that such a law should be enacted in this State.

Publicity

Your Committee desires also to emphasize the importance of publicity in all matters affecting assessments and taxation. To most taxpayers the whole taxation system is a mystery. If people were informed as to the methods and meaning of assessments, and as to the distribution by functions of the taxes levied upon their property there would be less criticism and discontent. Probably the use of land value maps in connection with the section, block and lot system would provide sufficient publicity as to assessments; a taxpayer in looking up his own assessment could find on the same page or adjacent pages the assessed valuation of all properties on the same block.

There should accompany the tax bill, either on the back or in some other way, information as to the method of computing the tax, and, also, a brief statement regarding the distribution of the revenues among the various activities of the city or county as the case may be.

A Modern System of Assessment

If there is any method of securing accurate and uniform assessments on all properties, and of making these assessments efficiently and at low cost, Pittsburgh should adopt such a method. As a result of its study of the assessment systems used in other cities, your Committee is convinced that methods are now being employed elsewhere which if adopted in this city and county would do much to accomplish these desired results.

One of the most modern systems of assessment is that used in the City of New York where the urgency of their financial problems and the complexity of city development make scientific methods imperative. The New York Commissioners of Taxes and Assessments are by the force of public opinion kept free from politics. The president and most of the members have served under both Tammany administrations and reform administrations. Thus the city and the taxpayer have the benefit of a board of specialists in assessment matters, who regard their work, not as a "job" but as a career, in which faithful and efficient service will win promotion.

In the judgment of your Committee, the New York System should be used as a model for a new system in Allegheny County and the cities, boroughs and townships within its borders.

This question is considered of such great importance that the portion of the Report of the Commissioners of Taxes and Assessments of the City of New York (1914), which describes their methods, is quoted in full, in an Appendix to this Report.

Your Committee has received a communication from the Department of Surveys of the City of Pittsburgh which throws considerable light on the value of the Section, Block and Lot System as applied to many of the problems which Pittsburgh has to solve. This communication is attached as an Appendix to this Report.

COMPARATIVE ASSESSMENTS OF PROPERTIES IN A PARTICULAR BLOCK.

Location of Property	Description of Property	Assessed Valuation		
		Land	Improvements	Total
523 Wood Street (Corner Oliver Ave.)	City... Lot 25′ x 80′ 4 Story Brick Building	$210,000	$10,000	$220,000
	County Lot 25′ x 80′ 5 Story Brick Store Building	163,880	15,000	178,880
521 Wood Street	City... Lot 19′ x 80′ 4 Story Brick	133,000	7,000	140,000
	County Lot 19′ x 80′ 4 Story Brick Store	108,300	9,000	117,300
519 Wood Street	City... Lot 19′ x 80′ 2-3 Story Brick Dwellings	133,000	30,000	163,000
	County Lot 19′ x 80′ 2-3 Story Brick Buildings and Improvements (Store)	108,300	10,000	118,300
515-517 Wood Street	City... Lot 38′ x 80′ 2-3 Story Bricks	266,000	14,000	280,000
	County Lot 38′ x 80′ 2-3 Story Brick Store Buildings	216,600	14,000	230,600
513 Wood Street	City... Lot 20′ x 80′ 6 Story Brick Building	140,000	18,000	158,000
	County Lot 20′ x 80′ 6 Story Brick and Terra Cotta Building	114,000	18,000	132,000
447-449 Wood Street (Corner Fifth Ave.)	City... Lot 40′ x 60′ 2-4 Story Brick Buildings	391,000	10,000	401,000
	County Lot 40′ x 60′ 2-4 Story Brick Buildings	330,000	12,000	342,000
445 Wood Street	City... Lot 17.96′x60′ thence 7.98x20′ 3 Story Brick	133,466	8,000	141,466
	County Lot 17.78′x60′ thence 8′x20′ 3 Story Brick Store Building	112,380	6,500	118,880
443 Wood Street	City... Lot 19.33′ x 80′ 4 Story Brick	129,511	8,000	137,511
	County Lot 19.33′ x 80′ 4 Story Brick Building	15,980	6,500	122,480
436-439-441 Wood St	City... Lot 18′ x 80′ 3 Story Brick Lot 17.5′ x 80′ Lot 17.5′ x 80′ 4 Story Brick Building	120,600 117,250 117,250	8,000 30,000	393,100
	County Lot 35.5′ x 80′ 4 Story Brick Lot 17.5′ x 80′ in all 3 Story Brick Store Building	213,000 96,250	30,000 5,500	344,750
437 Wood Street	City... Lot 19.33′ x 80′ 3 Story Brick	129,511	8,000	137,511
	County Lot 19.33′ x 80′ 3 Store Brick Store Building	115,980	5,500	121,480
433 Wood Street	City... Lot 17.5′ x 80′ 3 Story Brick	117,250	8,000	125,250
	County Lot 17.5′ x 80.22′ 3 Story Brick Store	96,250	5,500	101,750
431 Wood Street	City... Lot 19.33′ x 80′ 5 Story Brick	129,511	12,000	141,511
	County Lot 19.33′ x 80′ 5 Story Brick Building	106,320	9,000	115,320
429 Wood Street	City... Lot 18′ x 80′ 5-2 Story Brick Buildings	120,600	12,000	132,600
	County Lot 18′ x 80′ 5 Story Brick Store Building Machinery	99,000	10,000 200	109,200
Wood Street, Corner Diamond	City... Lot 6′ x 80′ 1 Story Brick Building	50,250	1,200	51,450
	County Lot 6′ x 80′ 1 Story Brick Building	39,600	1,000	40,600

ASSESSED VALUATIONS OF OFFICE BUILDINGS.

Building	Assessed Value of Building	Contents of Building (Cubic Feet)	Assessed Value per Cubic Foot (cents)
Arrott	$ 580,000	1,076,040	53.90
Benedum-Trees	425,000	1,177,668	36.09
Bessemer	725,000	2,554,620	28.38
Carnegie	945,000	2,455,200	38.49
Commonwealth	500,000	2,265,627	22.07
Columbia National Bank	325,000	1,380,720	23.54
Farmers Bank	1,625,000	3,467,880	46.86
First National Bank	1,300,000	2,912,976	44.63
Frick	2,400,000	6,440,000	37.27
Frick Annex	700,000	2,804,400	24.96
Fulton	850,000	3,631,032	23.41
Keystone National Bank	325,000	842,076	38.60
Oliver	2,250,000	6,975,603	32.26
Peoples Savings Bank	615,000	1,081,500	56.87
Pittsburgh Bank for Savings	405,000	538,560	75.20
Union National Bank	800,000	1,923,065	41.60

COMPARISON OF CITY AND COUNTY ASSESSED VALUATIONS OF MILL PROPERTIES.

Property of:	City Assessment			County Assessment		
	Land	Improvements	Total	Land	Improvements*	Total
Carnegie Steel Co. (Lucy Furnace)	$ 621,950	$306,000	$ 927,950	$ 497,560	$ 673,820	$1,071,380
Clinton Iron and Steel Co.	370,900	226,810	597,710	375,529	92,700	468,229
Pressed Steel Car Co. (Allegheny Plant)	280,110	220,050	500,160	236,510	483,220	719,730
Carbon Steel Co.	294,750	195,700	490,450	217,950	255,000	472,950
Brown & Co.	450,810	30,000	480,810	400,900	84,300	484,300
American Steel and Wire Co. (a)	1,283,453	281,000	1,564,453	933,240	418,950	1,352,190
ones & Laughlin Steel Co. (b)	2,283,318	478,320	2,761,638	1,944,640	1,220,400	3,165,040

*Includes machinery.
(a) Shoenberger mill.
(b) South Side Plant.

ZONING

If Pittsburgh is to continue to raise practically all its revenues by taxing real estate values, steps must be taken to prevent the needless destruction of these values and to stabilize and promote their increase in every way possible.

Real estate values are created by both public and private enterprise. A rational improvement, whether made at public or private expense, increases real estate values; an irrational, haphazard development is destructive and lessens values already created.

Is it not time that these simple facts should be clearly recognized and effective measures adopted to encourage a rational physical development of our city? Should we any longer tolerate sky-scrapers of unlimited height which steal their light and air from their neighbors, or permit the building of public garages, factories or apartments in splendid residential neighborhoods?

In New York a commission has been at work for two years on a plan whereby that city is to control its physical development and put an end to indiscriminate building without relation to neighbors, property owners, or existing values. The New York Commission has gone thoroughly into matters of height, area, air space, light, and other phases of the problem. It has established so-called "zones" in many parts of the city, and has fixed regulations as to buildings in the different zones. This comprehensive city plan is bound to make for a better city all around, but particularly will it result in a general and beneficial readjustment of the real estate situation. The zoning idea as a part of the general and comprehensive city plan, which has long prevailed in European cities, is taking strong hold upon American municipalities.

The present is the time for Pittsburgh to alter her ill-ordered, unprofitable, and wasteful development.

EXCESS CONDEMNATION

Any action on the part of the city that increases the value of real estate within its limits, adds to the amount realized from the tax on real estate. The consideration of any such action, therefore, would seem to fall within the province of this Committee. One method by which the city may increase its taxable values is by promoting the most efficient use of its land. This is not always brought about under unregulated private ownership. Not only is land left out of use or very inadequately improved, thereby depriving the city of the full enjoyment of its land, but not infrequently the use to which one man puts his land may depreciate the value of all surrounding property. Thus, the erection of a manufacturing plant or a garage in a high class residence neighborhood may reduce the value of all nearby property, or the division of land into excessively small parcels may prevent its best economic development. The former evil may be controlled to a large extent by the adoption of the so-called zoning system already described; the latter, in one of its most common and aggravated forms, by the use of the principle of excess condemnation.

By excess condemnation is meant the condemning and acquiring by the government of excess or additional land adjoining that taken for a public use. If a park or a public square is to be laid out, or a new street opened, or an old one widened or extended, it is for various reasons important that the city should have control over the development of adjoining property. In the case of a park or a square it might be primarily for the purpose of preventing the disfigurement of the park by the erection of unsightly or otherwise unsuitable buildings on land in close proximity to it. This purpose would be accomplished by selling the land, after the completion of the improvement, subject to such building restrictions as seemed desirable. Incidentally the city would benefit financially in two ways. The completion of the improvement would enhance the value of the adjoining land, thereby enabling the city to sell its excess land for more than it paid for it; and the value of this land would be further increased by the existence of the restrictions protecting the purchaser from undesirable neighbors, whereby the city would derive a larger permanent revenue from its real estate tax.

In the case of street openings and widenings the reasons for excess condemnation are even stronger. Running a new street through a new section of the city already cut up into small lots and largely built up with reference to existing streets almost invariably results in an undesirable lot plan with reference to the new street. In the same way the widening of an existing street usually leaves various short ends or irregularly shaped fragments of lots. These parcels are often so small that they cannot be profitably improved by their owners, and the process of getting them consolidated with adjoining property while they are in private hands is a very slow one. In many instances the price that the city has to pay for the part of the lot it acquires would practically pay for the whole lot, the viewers regarding the fragments left in the hands of the owners as almost worthless.

In the case of street openings and widenings alike, the city should have the power to acquire by condemnation the land for a certain distance back from the improvement. It could then disregard existing lot lines and replot the property in the most advantageous way with reference to the new or widened street. Here, as in the case of the public park, the city would benefit by the increase in the value of the land due to the improvement, an increase to which certainly no one has any better claim than the city that created it; and perhaps quite as much by the increase due to the replotting of the land adjoining the improvement, which would not be done, or would be done very slowly, if the property remained in private hands.

The State of Pennsylvania has already recognized the merit of the principle of excess condemnation. In 1907 the Legislature passed an act authorizing cities to acquire land for parks, parkways and playgrounds and to appropriate neighboring private property within two hundred feet of the boundary line of such property so taken, and authorizing the re-sale of such neighboring property under such restrictions as would fully protect such parks and parkways, and declaring that such an appropriation is a taking for public use. In 1913, in the case of the *Pennsylvania Mutual Life Insurance Company vs. Philadelphia,* the Supreme Court of the State held that the part of the act providing for excess condemnation was unconstitutional, drawing a distinction between a public use and a use resulting in a public benefit, utility or advantage.

It would, therefore, require a constitutional amendment to enable the City of Pittsburgh to apply the principle of excess condemnation in acquiring land for future improvements. Your Committee recommends that the city use its influence to secure the necessary constitutional and legislative enactments.

DELINQUENT TAXES, TAX LIENS AND TAX TITLES

Your Committee is of the opinion that the collection of taxes in Pittsburgh, up to the fourth year of delinquency, is affectively conducted, judging solely from the percentage of the levies collected within this period. We believe, however, that improvement can and should be made in the collection of taxes more than three years delinquent, since it is apparent from the record that such long term delinquency is increasing. Appended to this Report is a table prepared by your Committee, showing the efficiency of tax and water rent collections from and

after the first year of delinquency and during each succeeding year up to the eighth. Careful scrutiny of this table will show that each year, for several years past, a larger portion of the levy remained uncollected at the beginning of the fourth year of delinquency. Thus, of the tax levy of 1908, 1.3 percent remained uncollected at the beginning of the fourth year; whereas, of the tax levy of 1912, 2 percent remained uncollected at the beginning of the fourth year. It is probable that any effective plan for cleaning up delinquent tax accounts after the third year must be accompanied by an effective method of securing payment of municipal and tax liens and of quieting the titles to properties acquired by the city at sheriffs' sales under such liens.

Leniency and tardiness by public officials in the collection of taxes is a benefit to neither the city nor the taxpayers. The time of filing lien, after delinquency occurs, as provided by present law, should be scrupulously observed. When the city has acquired lien against the property, it should be promptly brought to sheriff's sale for the satisfaction of the lien, unless the lien itself can be sold at public bid to satisfy the city's claim. Whether the property is brought to sale by the city under the lien, or the lien itself is sold, to save the city the expense and the disagreeable necessity of foreclosing under it, the necessity exists of proceeding promptly, uniformly and methodically to collect delinquent taxes and municipal assessments. In either case, the right of redemption by the former owner, within a reasonable time after the lien is filed, can be preserved. The government should be no respector of persons, to the extent of discriminating between delinquents, or holding out false hopes of delay or leniency in such matters. It should not be within the discretion of officials to do so. Only by strict enforcement of collections upon delinquent accounts can the growth of delinquency be stopped and just administration of the tax laws be secured.

Reference may here be made to the practice of New York City in selling its tax liens at public sale to the highest bidder, thus relieving the city of a disagreeable task, liquidating promptly city claims for unpaid taxes, reducing the expense and care of city properties purchased to protect liens, and giving to the delinquent on whose property the lien stands an extension of three years' time in which to redeem his property. Under the New York plan, when any item of taxes or assessments is in arrears for more than three years, it is the duty of the collector of assessments and arrears to advertise a sale of the city's liens for all the arrears which may be due up to a date named in the advertisement of the sale.

At the sale the bidders offer the rate of interest which they are willing to receive upon the amount of the tax lien, not exceeding 12 per cent. The city issues a transfer of its tax lien to the successful bidder. This transfer of tax lien is almost exactly like a first mortgage on the property. If the owner of the property pays semi-annual interest at the rate provided for in the transfer of tax lien, he has three years in which to pay the principal. If the owner of the property defaults in paying the interest or the principal sum when due, the holder of the transfer of tax lien may foreclose it in the same manner as he would foreclose a first mortgage. When this property is sold, the buyer receives as good a title as is known to the law. The purchase money is paid into court; the amount due on the transfer of tax lien is paid to the holder, and the surplus is held for the benefit of the owner of the property.

Practically all the transfers of tax liens find bidders. The average rate of interest is about 7 per cent. The constitutionality of the law has been upheld by the highest court. The city gets its money promptly; it shifts to a private person the trouble of bringing proceedings to enforce payment. The plan is fair to tax payers in that it gives them, first, three years before proceedings are commenced, and second, three years more if interest is paid promptly and subsequently accruing taxes are paid within six months.

A somewhat similar system of selling liens, in connection with an effective method of quieting tax titles and disposing of properties acquired by the city under tax liens, is recommended by your Committee for Pittsburgh.

The title which the city now establishes in purchasing property at sheriff's sale under municipal or tax liens depends upon statutes which lay down in detail the procedure that must be followed in such cases. In obtaining such statutory title, the slightest omission or error in conforming with the requirements of the law interferes with the establishing of a valid and indefeasible title in the name of the city. The extent of this weakness in the titles of properties at present owned by the city is not definitely known. But the fact that weaknesses exist in some cases throws an element of uncertainty into the situation that makes it difficult for the city to sell the accumulated properties. The title companies and attorneys in most cases refuse to accept such tax titles. It appears that carelessness has been displayed in following out the requirements of the law, and that, if they should be sold, the city would be unable to convey good title to some of these parcels of land. It is evident that this condition interferes with the sale of city properties.

The city treasury suffers just to the extent that doubtful titles interfere with the sale, or reduce the selling value, of such properties. While in possession of the city, they return no tax, and increase the expense of administration. The city should, and undoubtedly does, purchase such properties only in self-protection, and sell them as soon as possible. In many cases, the properties are not worth the amount of the accummulated assessments and costs, and a loss will be sustained by the city upon them. In other instances, a profit may be realized from their sale, acting as a partial offset to the losses on other parcels.

It has been suggested that in the absence of adequate means for quieting the title to any property which has been sold, or which it is desired to sell, the city should be enabled to give a general warranty deed, and, where desirable, guarantee the title of the property sold, whenever by so doing a more active market or better prices can be secured. It should be noted, however, that legal difficulties might obstruct such a plan. The city officer in charge of properties to be sold should be vested with authority to proceed under the Act of June 4th, 1915, or other legislation, to quiet the titles to properties that have been sold at private or public sale, the city reserving a reasonable time, not to exceed six months, in which to do so. If the Act of June 4th, 1915, should not prove effective in quieting tax titles, the Law Department should recommend other legislation calculated to accomplish that purpose. It is important that the value tied up in these city properties should be released whenever possible for the benefit of the city treasury and that properties should not be allowed to accumulate in any large number in the possession of the city.

Your Committee recommends that the city Law Department be requested to draft a mode of procedure, under which all properties, or the liens on same, on which taxes or municipal charges are three years or more in arrears, may be promptly brought to public sale for the satisfaction of tax or municipal liens. Such procedure should be as simple and inexpensive as possible, omitting all unnecessary advertising expenses, cost, etc., and including provisions by which the city, when deemed necessary or desirable in the protection of the public interest, may bid upon and acquire the property in the name of the city. The procedure adopted should enable the city, by such amendments to existing laws as may be found necessary, to acquire as good title as possible at such sale, and subsequently to quiet, at the least possible expense, any defect found in any such title, whether the title at the time resides in the city or in private parties who have acquired ownership through the city. This should apply to properties now owned or claimed by the city or hereafter acquired.

TAXES—EFFICIENCY OF COLLECTION

(Excluding Exonerations)

Outstanding—Per Cent of Levy.

Levy of	Year 1st	2d	3d	4th	5th	6th	7th	8th		Amount of Levy	Outstanding January 1,1916
1908	20.9	6.8	2.0	1.3	1.0	0.8	0.6	0.5		$ 9,163,777.16	$ 40,607.48
1909	18.8	4.6	1.9	1.4	1.2	0.8	0.6	...		8,655,241.54	55,528.88
1910	17.2	4.4	2.0	1.6	1.2	1.0	...	...		9,286,927.14	88,088.02
1911	16.7	4.4	2.5	1.9	1.4	...	...	...		9,391,903.78	133,304.44
1912	12.5	4.1	2.8	2.0	...	...	...	...		6,871,570.35	139,842.00
1913	9.5	3.6	2.2	...	...	...	...	...		7,018,358.49	158,739.12
1914	9.9	3.6	...	...	...	...	...	...		7,114,698.10	253,736.65
1915	10.2	...	...	...	...	...	...	...		7,960,231.15	615,165.87
Avg.	14.5	4.5	2.2	1.6	1.2	0.9	0.6	0.5	Total......	$65,462,707.71	$1,685,012.46
1908	38.6	7.8	3.0	1.6	1.3	1.1	0.7	0.5		$ 1,868,074.49	$ 8,287.05
1909	31.0	6.9	2.4	1.6	1.3	1.0	0.6	...		2,037,223.73	12,487.40
1910	27.1	6.2	2.7	2.1	1.3	1.0	...	...		1,926,216.57	19,191.42
1911	27.8	6.0	3.7	3.0	2.5	...	...	...		2,274,382.35	55,939.06
1912	20.1	5.6	3.8	2.1	...	...	...	...		1,467,916.32	30,920.68
1913	11.5	4.6	2.8	...	...	...	...	...		2,365,613.28	66,683.10
1914	13.5	6.4	...	...	...	...	...	...		2,187,318.82	139,877.38
1915	15.4	...	...	...	...	...	...	...		3,060,060.45	472,397.01
Avg.	23.1	6.2	3.1	2.1	1.8	1.0	0.6	0.5	Total.......	$17,186,806.01	$ 805,763.10

EXEMPTIONS FROM TAXATION

The following list shows the property in the City of Pittsburgh exempted from taxation in 1915, divided into classes:

Valuations Established by the City Assessors and the County Assessors on Property in the City of Pittsburgh Exempt from Taxation:

Class of Property	City (a) Assessment	County (b) Assessment
Churches	$ 22,957,207	$ 24,544,850
School and Colleges	20,974,688	21,037,960
Hospitals	8,265,948	6,185,250
Asylums and Homes	4,059,037	....
Y. M. C. Associations	1,255,519	....
Bath Houses	189,045	....
Religious and Charitable Associations	489,279	....
Charities	....	2,119,930
Cemeteries	7,464,344	4,992,070
Public Utility Corporations	22,306,094	44,352,950
Government Owned	77,152,633	74,906,790
Total	$165,113,794	(c) $178,139,800

(a) Report of City Board of Assessors for the year ending December 31st, 1915.

(b) From figures supplied by the Board for the Assessment and Revision of Taxes—1915.

(c) A discrepancy of $9,159,440 exists between this figure and the one shown in the Report of the Board for the Assessment and Revision of Taxes to the Secretary of Internal Affairs, due to an error in classifying the properties. The figure in the "State Report" ($168,980,360) should be accepted as the more authentic.

At the public hearings held by this Committee, and at the regular meetings of the Committee, the one question most frequently raised, perhaps, was: Shall churches, colleges, hospitals, cemeteries, charitable institutions, and public service corporations be permitted to continue in the enjoyment of exemption from local taxation? The exemption of public service corporations is discussed elsewhere in this Report. A brief analysis of the situation as it affects the other classes of institutions mentioned will prove helpful. Let it be understood that the problem is one of public finance, not of private sentiment.

The basis for exemptions of any kind is contained in the Constitution of Pennsylvania, which permits the Legislature to enact general laws exempting from taxation "public property used for public purposes, actual places of religious worship, places of burial not used or held for private or corporate profit, and institutions of purely public charity." By virtue of this authority, the Legislature has from time to time enacted general laws on the subject, and it is in pursuance of these statutes that assessing bodies within the State are exempting from taxation the classes of institutions listed above.

The Legislature has construed its constitutional authority rather broadly; the Courts have been equally broad in construing the words "purely public charity"; and assessors and boards have stretched the law to the point where taxpayers have a very just cause for complaint.

It is a gross misplacing of authority to allow assessors or assessing bodies to decide the question of exemptions. Their duty is, and should be, that of valuation. The allowance of an exemption is a very technical question, quasi-judicial in its nature. For example, the law requires, among other things, that institutions to be exempt must be in actual use for the purposes intended; that the entire revenue of the property sought to be exempted be used for those purposes; and provides that all land not necessary for the convenient occupancy and en-

joyment of present or future buildings shall not be exempted; and that the institution shall have the legal or equitable title to the land. Furthermore, in construing the words "purely public charity," it has been decided that "a charity whose bounty is confined to members of a church or voluntary society is not purely public," and is therefore not exempt, (White's "Constitution of Pennsylvania," 1907 Edition, page 417, referring to case of *Philadelphia vs. Masonic Home,* 160 Pa., 572.) Obviously the authority to allow an exemption should not be placed in the hands of the assessors.

Attention should also be called to a fault in administration which has long existed,—the assessor or assessing body exempts on insufficient knowledge. An exemption from taxation is a special privilege which should be granted only upon petition. The petition should be presented annually, on some suitable form devised to set forth all the facts entitling the petitioner to exemption, and should be sworn to by the proper parties. The Controller should then decide whether the petitioner is entitled under the law to an exemption, having the assessors check up the facts, and being assisted in his decision by competent legal advice. It is believed that many thousands of dollars will be saved to the city and county by this requirement. Your Committee feels convinced that, without some sworn petition, considerable property not entitled to exemption will escape or is escaping taxation. This plan should be put into effect at once.

It is further recommended that all classes of exempt institutions be required to pay their share for all local improvements, such as the opening of new streets, the laying of sidewalks, sewers, etc. We are informed that for most of these improvements it is not the practice to assess against an institution in the exempted class, because of its doubtful legality. Your Committee does not undertake to interpret the law, but wishes to quote from White's "Constitution of Pennsylvania" (190. Edition,) and to suggest that if the quotation below does not represent the law on the subject as it exists to-day, then the statute should be amended to conform.

> "It may, therefore, be considered to be settled law that actual places of religious worship, places of burial not used or held for private or corporate profit, and institutions of purely public charity are not exempted from assessments for local improvements."

This is another instance of where a considerable sum may properly be brought into the local treasury each year.

A consideration of the various classes of religious, educational and charitable institutions now enjoying exemption from annual taxation, and the reasons for exemption, will now be undertaken. The city figures for 1915 will be used:

1.	Churches	$22,957,207
2.	Schools and Colleges	20,974,688
3.	Hospitals	8,265,948
4.	Cemeteries	7,464,344
5.	Asylums, Homes, Young Men's and Women's Associations, Bath Houses and Sundry Charitable and Religious Associations	5,992,880

The general economic reason underlying the principle of exemption of institutions devoted to the public good and not maintained for private profit is that these institutions are furnishing, at no expense to the local community, some benefits in some form which that community would otherwise have to furnish at its own expense. In theory, at least, a much better plan than that of exemption would at first glance seem to be for the city and county to tax all exempt institutions the same as those non-exempt, and then to give to such as are entitled to aid some financial assistance, proportionate not only to the benefits conferred upon the general public but also to the amount that the city and county are

relieved from direct expense by the existence of such institutions. Under such a plan institutions seeking aid from the city and county would be required to conform to certain standards, and give full information as to their activities, which information could be given proper publicity. But it may properly be objected that, under such a system, the city and county might give more in aid than they now allow in exemptions, and that therefore the plan would be financially a poor one. On the assumption, therefore, that a modified exemption plan would be the safer one to adopt, some of the defects in the present system may briefly be indicated.

Your Committe is unanimous in believing that the exemption system should be radically revised, but in the comparatively short time at its disposal it has been unable to decide upon the most practical method. It is strongly urged that this matter be given state-wide attention and study, with a view to arriving at some definite plan. Exemptions, if allowed at all, should be limited by a consideration of the relation which the value of the exempted property bears to the benefits derived by the public. The various avenues of approach to the accomplishment of changes in our exemption system are as follows: (A) a constitutional amendment forbidding exemptions of any properties except those government-owned; or (B) an act of the Legislature repealing the exemption laws except those affecting government-owned property; or (C) an act of the Legislature specifying certain definite limits of exemption, or leaving the matter of specifying them to a State commission; or (D) an act of the Legislature giving home rule to the county and city on the subject of exemptions and the limits thereof.

If all exemptions were abolished, a church or cemetery with property of an assessed valuation of $100,000 would, under present tax rates, have to raise a little more than $2,000 annually to pay the tax, and a college or hospital with a $1,000,000 property would have to provide something over $20,000 to pay its tax. In the case of such institutions as are patronized by persons from outside the city and county, it has been argued that it would be proper to shift the tax burden away from the city and county either upon the supporters of the institutions or upon the State by an increase in the amount of State aid. On this phase of the subject your Committee has no comments to make.

Assuming that either (C) or (D) should be adopted, what methods of limiting the amount of exemption are available? In the case of a cemetery it is comparatively simple; its exemption could be limited to that proportion of the assessed value of the property, which the minimum suitable area for one grave multiplied by the actual number of occupied graves, bears to the entire area of the cemetery. In such a case there would be taxed only extravagantly large cemetery lots, and the large acreage held for the future, the tax upon which would not be burdensome to the living who are reserving it for their future use.

The schools, colleges, hospitals, asylums, etc., in groups 2, 3 and 5 above, with valuations of about thirty-five millions of dollars, present a more difficult problem. Let attention again be called to the fact that there should be some relation between the value of the property exempted and the benefits derived by the public. For example, a hospital, an asylum or a college, having a million dollars' worth of property exempted by the community, should be expected to benefit a larger number of people than a similar institution that is allowed to withhold from the treasury of the taxing body the tax on only one hundred thousand dollars' worth of property. It may be possible that a truly scientific method can be devised. One method which, however, presents some practical difficulties would be to ascertain the relation, first, between the building value and the number of persons served per day by the average good institution economically constructed, and second, separately in cities, towns and smaller political subdivisions, the relation between the land value and the number of persons served per day by the average good institution properly located in a district with land values relatively low. With such figures as units, the proper exemption of taxation on

buildings and land of a college, for example, could be found by a mere process of multiplication, the unit per student per day being one factor, the other factor being the number of "student days," with possibly an additional allowance for each free scholarship. Similarly, the unit of inmates per day, with an allowance for free wards, would suggest itself in the case of hospitals, and like units for asylums and other institutions. The net result of such a plan would be to exempt in full the suitably located, economically constructed and fully used institution of any class, and to tax other institutions to the extent that they fall short of this ideal. The plan would more equitably distribute the exemption privilege and properly bring in more tax to the community, and incidentally it would prove corrective. The question as to what body would determine these standards would depend on whether (C) or (D) were adopted.

Were it not for the express mention of churches in the Constitution and their exemption by the Legislature, the courts would probably hold, as they did in one case before them, that an institution whose benefits are confined to the members of a voluntary society is not so purely public in its nature as to entitle it to an exemption. A number of individuals and public officials at meetings of your Committee urged that the exemption of churches should be removed. (It may be recalled that there was church property to the value of nearly $25,000,000 exempted in 1915.) It was even urged by one individual that the churches, if taxed, would, by passing this tax on to the members of their congregations interest financially in the economical administration of the city and county a number of persons not now interested, to the ultimate benefit of all concerned.

If plan (C) or (D), and not (A) or (B), were employed, however, it seems to your Committee probable that there are millions of dollars' worth of church property exempted in the City of Pittsburgh that should not be, under proper exemption limits. Exemption should be limited to the minimum adequate building and the minimum suitably located land. The same reasoning applies here as advanced in connection with colleges, hospitals, etc., excepting that, owing to the variation among religions and forms of worship, neither "use per day," nor seating capacity, nor number of members of a congregation forms a proper basis for computation.

Such being the case, therefore, and lacking a practical numerical basis, one method suggested (which assumes in favor of the churches, that they are not larger than they need be) concerns itself with reasonable building and land values. If the relation were ascertained between the value of an adequate but simple building and the number of square feet it occupied, a price per square foot for building exemption would be arrived at; and the land exemption should certainly not be higher than the maximum square foot (or front foot) price of residence property in the neighborhood multiplied by the number of square feet (or front feet on the entrance side) necessary for the building, and an additional percentage allowance for surrounding grounds. The result would be to exempt the suitably located and economically built place of worship and to tax others to the extent only that they are expensively located or luxuriously constructed; and for this privilege of extravagance or luxury no person in the community should be expected to pay in the shape of an increased tax on his home or other property. A church erected in a residence district, with a front foot valuation of five hundred dollars, which finds in the course of time that its members have moved away, and that the street has become a business thoroughfare, with land values of five thousand dollars per front foot, should be properly made to feel the tax pressure to the extent that it has ceased to be properly located, to induce it to dispose of the property (so that the latter would return to the city and county tax rolls for full taxation,) and to move to a more suitable (and exempt) location.

One other method of setting limits to exemptions suggests itself: namely, to allow all institutions of a particular class a flat exemption—say, for example, churches $50,000, hospitals $100,000, and so on through

the various classes. While this plan is much easier of application, it is very crude, and would work out unjustly in many instances.

A further suggestion has been made in case (C) or (D) should be adopted. This is that any institution in the exempted class desiring to purchase property for one of the exempted uses, or desiring to put property, which it already owns, to one of the exempted uses, shall be required to petition the Court of Common Pleas for permission to do so; and in default of such petition, or in case the petition is refused and the institution proceeds nevertheless, all right to exemption shall be forfeited. The reason for this suggestion should be apparent. The community depends for its revenue largely upon a tax on realty; no one person or group of persons or institution should be allowed the benefit of an exemption in the future unless the community, acting through its courts, is satisfied that the property to be taken practically off its tax books is suitable by reason of its location and size for the purposes intended. This would tend to prevent cemeteries, hospitals, asylums, churches, etc., from locating at the mere whim of some individuals, in places unsuitable by reason of high ground values, the character of surrounding residences, or from other considerations; the penalty for persistence in this course contrary to the public wish being the requirement to pay taxes the same as unexempted individuals.

While your Committee has limited its actual recommendations on that part of the exemption problem treated above to an annual petition for exemption addressed to the Controller, the removal of the exemption of assessments for public improvements, and a radical revision of the whole exemption system, it has injected into this Report a discussion, at some length, of the lines along which revision may be attained, for the reason that the subject is of such importance that it should not be overlooked.

As previously noted, the question of the exemption of public utility corporations is treated elsewhere in this Report. On the subject of the exemption of government property, your Committee has no recommendations to propose. The graded tax law providing for a different rate on buildings in cities of the second class is also treated elsewhere in this Report; and for the sake of convenience and economy of space, local exemption of machinery is discussed in connection with exemption of manufacturing corporations, under the subject of Corporation Taxes.

EXEMPTION OF PUBLIC UTILITY CORPORATIONS

It seems fair to assume that a corporation should pay all taxes that an unincorporated business pays, plus a tax for the corporate privilege. It should be equally clear that public utility corporations, such as railroads, street railways, telegraph and telephone companies, gas and electric light and water companies, and the like, should pay all the taxes that other corporations pay, plus an additional tax for the monopolistic rights they enjoy. This line of reasoning can hardly be questioned so long as such corporations are conducted purely for private profit, the public not sharing in the earnings either in the form of dividends, or by way of improved service or decreased rates. This additional tax is quite properly based on the gross receipts; and while in theory it should inure to the benefit of the local community where the franchise is enjoyed, yet the separation of taxes is such in Pennsylvania, the State surrendering some of its rights to taxable subjects in exchange for a similar surrender on the part of its political subdivisions, that no objection can be found to the State taking this tax on gross receipts. But that public utility corporations should enjoy an exemption from local taxation is, in the opinion of your Committee, altogether wrong. In 1915 over $22,000,000 worth of property of public utility corporations was exempted, under the present laws, by the City of Pittsburgh, and

a great deal more by Allegheny County. (See schedule of exemptions under title of "Exemptions" elsewhere in this Report.) This property should all be made the subject of taxation.

Difficulties of administration are not insuperable. A suggested plan would be for a central State assessing body to assess all ordinary property of public utility corporations, such as terminals, car barns, power houses, office buildings and the like, as well as to assess rights of way and similar forms of property, this state body assessing the entire value of such forms of property within its borders and distributing it among the counties. In this distribution among the counties, two factors should be taken into account; the number of units (miles of track, for example, in the case of railroads) of the property within the respective counties, and the relative total assessed valuation of real estate within the same counties. With this distribution thus made with a sufficient approximation to equity, each county assessing body could distribute the value so arrived at among the cities, townships and boroughs by the same method of computation.

It can readily be seen that the removal of the partial exemption from local taxation now enjoyed by public utility corporations would greatly increase the local revenues without working any injustice.

WATER RATES

Your Committee recommends that:

1. Charges for water furnished by the City to consumers be considered not as a tax but as the price paid for a commodity.
2. The Water Department be operated as a self-sustaining department.
3. The City pay for water used for public purposes.
4. The City appoint some person or persons to determine the cost of supplying water and the proper distribution of charges or rates.

There is no apparent reason why such an investigation should involve any considerable time or expense. Doubtless the City has complete records showing the location, character, age, cost and condition of the various plant assets. We are of the opinion that a competent hydraulic engineer assisted by an expert from the Controller's Department and an expert from the Water Department could within a short time and at small cost obtain all the necessary information.

MUNICIPAL INCOME FROM LICENSES, PERMITS, ETC.

The income of the City of Pittsburgh from licenses is derived mainly from liquor licenses, which pay over $600,000 annually out of a total of $800,000 derived from licenses and permits. The $200,000 in fees and licenses collected from other sources than the liquor trade is derived from over a hundred various impositions, including licenses to bill posters, engineers, peddlers, plumbers, slot machines and amusement enterprises, use of privileges in the public parks, issue of building permits, and from various privileges, such as the right to sell ammunition, drugs, etc. The bulk of this miscellaneous income is derived from the licensing of amusement enterprises.

If a dozen of the more lucrative sources were removed, the income derived from the rest would be very small, perhaps less than $50,000 a year. Indeed, the income from some of these sources is less perhaps than the cost of collection, and, in many instances, as in the case of lodging houses, practically no attempt is made to enforce the law and collect the fees. If these various charges are to remain upon the statute book, they should be rigorously enforced and collected.

The present system of charges for licenses, permits and privileges is the outgrowth of a series of special ordinances, passed at different times and by different councils, without regard to any system or comprehensive plan. As a result, the present charges are haphazard and unscientific, poorly enforced and yielding insufficient revenue, in many cases, to justify their existence.

Your Committee is of the opinion that codification and revision of all of the special charges made by the city for licenses, permits and privileges should be undertaken for the purpose of providing more uniform and scientific charges, increasing the revenue of the city, and providing for the effective enforcement of the law. The work done along this line by the Milwaukee Citizens' Bureau of Municipal Efficiency for the Finance Commission of Milwaukee may serve as a guide.

Suggestions are made elsewhere in this Report for increasing the revenues of the City of Pittsburgh. Your Committee does not deem it wise at this point to make further isolated suggestions which might slightly increase the revenue of the city by adding to the already cumbersome system of license and permit fees. Many additional sources of revenue have been suggested, some of which, under a thoroughly scientific scheme of licenses and permits, would perhaps yield in the aggregate considerable increased revenue to the city. At the same time, the adequate enforcement of a proper system of charges would undoubtedly reduce the expense of administering them, leaving more of the funds thus collected available for other city purposes.

As a basis for the revision of the schedule of licenses and permits, it should be borne in mind that license and permit charges are founded upon one or more of three purposes:

1. To compensate the city for some special service or privilege extended by the city to private parties.
2. To protect the health and property of the community by registering individuals to engage in certain hazardous occupations, do certain things, or keep certain property which possesses some special risk to the public. The charges in such cases are based upon the police power and are for the purpose of identifying such persons or things and judging of their competency to act.
3. To tax persons or articles not otherwise reached by taxation. Strictly speaking, this is not a proper basis for the issuance of a permit or license, but in practice it is the reason behind many such changes, even though the imposition is ostensibly and legally founded upon the police power. Itinerant peddlers, for instance, are often charged more than a mere vehicle or driver's license would amount to, upon the theory that they are not reached by other taxes to which retailers are subject, and accordingly should be licensed at a higher rate than other vehicles pay. Taxation, under the guise of a license or permit, is justifiable, if at all, only when the taxable cannot be reached through the regular channels of taxation.

When, under the police or regulative power, the license is issued strictly as a matter of registration and identification, so that it may be known who is engaging in that form of enterprise or occupation in the city, the charge should be nominal and uniform, regardless of the size or character of the undertaking. One dollar is suggested as an even amount, which should cover the cost of issuing licenses in such cases. Police identification cards, now issued free by the Department of Public Safety, might come under this heading, if there is any justification for issuing them at all.

When the issuance of a license or permit is based upon some service or privilege given by the city, as in examining engineers, inspecting the storage of explosives, or providing special fire and police protection to amusement enterprises, etc., the fee should cover, in addition to the uniform charge for registration, the estimated cost of the services rendered or of providing protection against the special hazard incurred in permitting the exercise of the privilege or occupation. In such cases, the

fee should not be based upon what "the traffic will bear" but upon the actual cost of the service or privilege rendered. In other words, licenses and permits are not properly revenue-producing measures, except to the extent of actually meeting the costs of administration.

In some cases, in addition to registering and charging individuals for services rendered or privileges granted, it is desirable to add something in the nature of a tax representing clear income to the city. Taxation, in this form, is not recommended by your Committee if any other means exists of reaching income or property.

All special services rendered to private concerns or individuals by the city, to the extent to which they accrue strictly to private benefit, should be charged for at cost, so as to be self-sustaining. This means actual cost, whenever it can be obtained by practical and efficient methods, or estimated cost whenever it is not possible or practicable to ascertain the actual cost.

Taxes, as differentiated from purely registration, service, rental or permit charges, should not be administered under the police power or supervision, whenever it can be avoided.

INCOME FROM MUNICIPAL PROPERTIES

Properties owned by the City of Pittsburgh should be made to produce the highest available returns to the people of the city.

To secure and maintain an efficient administration of public properties your Committee recommends that, in so far as this is not already the case, the care and sale of municipal property acquired under municipal or tax liens, or otherwise, and intended for resale or lease for a private use, should be coordinated in one of the city departments under the direct supervision of some competent official. He should be vested with full authority and charged with the responsibility of maintaining, in the proper city office and open to public inspection, full and complete descriptions, valuations and plots of all city properties regardless of the manner in which they were acquired. These records should indicate clearly how each property was acquired, the use to which it is being put, or is intended to be put, and whether or not it is for sale. The exact location of each property should be marked on a large map of the city provided for this special purpose and, where deemed advisable, photographs should supplement the map, properly filed, for the purpose of clearly indicating the topography and general character of the property.

Your Committee has not attempted any exhaustive investigation into the present status of the titles and incomes of city properties. Such detailed investigation would have taken more time than was placed at the disposal of this Committee by the ordinance under which it was appointed. Furthermore, we have deemed it unnecessary to make an extended investigation into details or to make recommendations regarding them, for the reason that a Committee of Council, appointed prior to the organization of the Committee on Taxation Study, has been investigating the income from city properties, particularly municipal wharves. We do, however, wish to emphasize the extreme importance of ascertaining the exact conditions now existing with respect to all city properties.

Wherever private concerns are using city properties without adequate compensation, they should be required to pay a fair charge for such use. Whenever possible back rentals, whether due from leases or squatters, should be collected.

No allowance should be made, in the strictly private use of such properties, for the fact that the concern or individual using it for private gain is conferring a benefit upon the city by locating in business here. If municipal aid is to be extended to manufacturing plants or others locating in Pittsburgh, it should be done openly by public appropriation and not through the reduction of rentals or the free use of

municipal facilities. On the other hand, it is proper perhaps that any enhanced public benefit or value imparted to such properties by private use or occupancy, such as improvements made at the expense of the tenant, etc., should be taken into consideration.

THE CARE AND SALE OF CITY PROPERTY

The Bureau of City Property recently issued a printed list of some 1490 parcels of property owned and offered for sale by the city.

Of this number:

534 are hill-side lots which could not be used for buildings;
10 are lots on paved streets but unsuited for building;
2 do not belong to the City;
4 are lots in which the City owns only an undivided part interest, or lots so small that they could only be used in connection with the adjoining lots;
435 are hillside lots suitable for cheap dwellings;
122 are on paved streets suitable for buildings;
78 are lots suitable for medium cost dwellings;
203 are suitable for cheap dwellings and buildings;
42 are lots having buildings on them;
7 are used for steps leading to high-lying properties;
8 are used for playgrounds;
27 have been sold or redeemed;
1 property is used by the Bureau of Water and is not for sale; or, if sold, would require a purchase elsewhere by the City;
16 are not for sale as they are used by the City for sundry purposes;
1 property is used as a stone quarry.

It will be noted that a considerable percentage of the properties listed are hillside lots unsuitable for building purposes. It would probably not be wise to include such properties in a sale list, or to offer them for sale at this time, as they are very likely, if sold, to come back to the city again with added expense for foreclosure of tax liens. The city may find some future use for these properties when grouped together, either for city beautification, for hillside parks or breathing spots, or for the opening or widening of streets or boulevards. For example, quite a number of them are along the line of or near the route that has been suggested for the new boulevard from the downtown section to Oakland along the bluff overlooking the Monongahela River. If there is any reason to believe that such a boulevard will eventually be constructed, it would be unwise to sell these properties for nominal amounts at this time only to pay larger amounts later to obtain the property when needed for the boulevard.

Improvements could be made in getting up a revised list of these properties; for example, there are printed figures in terms of dollars placed after each individual property, but there is no indication as to what these figures mean. If figures are used at all they should indicate approximately the prices at which the properties will be sold. In a number of instances the lots or parcels listed consist of a number of adjacent properties; it would probably be better, for the purposes for which this list is printed, to list such adjacent properties as one larger property. It should be obvious that such properties as the city has acquired for purposes of its own, or is using for such purposes, and has no desire to sell, should not be included in such a list.

It is further suggested that the parcels listed should be sufficiently well-described that they can readily be identified by prospective purchasers.

These suggestions are made, not only that a proper list of city properties which are for sale should be available, but also that no exagger-

ated impression should prevail of the numbers of properties acquired and held by the city, due to non-payment of taxes and municipal claims. Such impression could easily be drawn from the present list, comprising as it does properties having little or no value for present use.

Parcels deemed actually salable, and not required or advisable to hold for public purposes, should perhaps have signs placed upon them for purposes of identification and sale, in each case stating that the parcel belongs to the city and indicating the proper city official or department to see regarding it.

SOURCES OF CITY REVENUE

The figures given in the following table are compiled from the report of the Bureau of the Census on "Financial Statistics of Cities, 1915." In a few respects the table needs explanation.

The first class of income, that from taxes on property, gives no indication of the kinds of property on which the tax is levied in different cities. The figures are not given in the report in a form which makes it possible to separate taxes on land from taxes on improvements and taxes on personal property. If such a separation of sources were possible, it would be interesting to compare the revenue of Pittsburgh derived from the tax on real estate with the corresponding revenue of other cities.

In five of the nine cities included in the table the county organization has been merged with that of the city. In order that the figures for the other four cities, Chicago, Cleveland, Pittsburgh and Detroit, may be comparable with those of the five first mentioned, there has been included with the figures for the city corporation and other units of local government such as the school district, a percentage of the receipts of the counties in which the respective cities are located, based on the ratio between the assessed valuation of the city and that of the county.

The headings of the several columns of the table are self-explanatory. The receipts from taxes are grouped under three heads, taxes on property, poll taxes, and business and license taxes. Of the last class about 90 per cent of the revenue comes from taxes on the liquor traffic except in the cases of New York and Chicago where the proportion is somewhat smaller.

Of the receipts from subventions, grants, etc., by far the largest part consists of amounts granted to the cities by the states mostly for educational purposes. In New York and Chicago, however, receipts from pension assessments are a larger item.

Receipts from highway privileges are nearly all from public service corporations; receipts from interest are made up of interest on current deposits and interest on sinking funds.

Receipts from earnings of public service enterprises come chiefly from the water supply systems and from markets; Chicago and Cleveland, however, have large receipts from electric light and power systems, while New York derives nearly a third of this revenue from ferries and wharves.

An examination of the table shows that taxes on property yield over half of this revenue in each city. The percentages run from 56 in Chicago to 73 in Boston. Pittsburgh comes immediately after Boston with a percentage of 70.7. If it were possible to give the figures for the revenue from taxes on real estate alone, Pittsburgh would undoubtedly show the highest percentage in that class.

If we now examine the table to discover where the cities with small receipts from taxes on property make up the difference we find a variety of situations. In Chicago and St. Louis, business and license taxes and special assessments seem to be especially fruitful sources of income.

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PM-MGP
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC

200 mm

150 mm

100 mm

A3

A4

A5

1.0 mm

1.5 mm

2.0 mm

2.5 mm

PRECISION℠ RESOLUTION TARGETS

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4.5 mm

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
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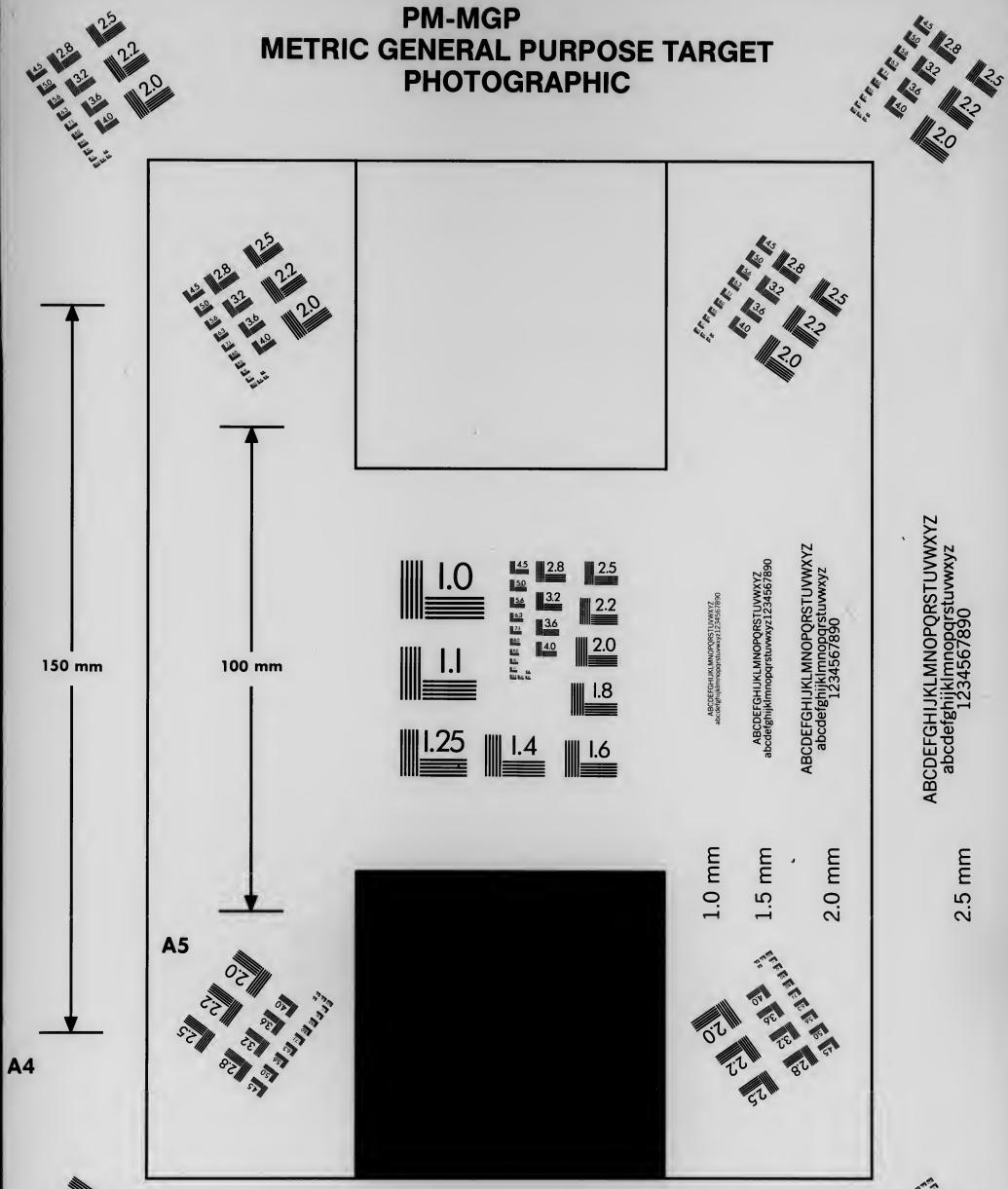
REVENUE OF THE CITIES OF THE UNITED STATES HAVING A POPULATION IN EXCESS OF 500,000, DISTRIBUTED BY SOURCE.*

	Population	REVENUE RECEIPTS																							
		From Taxes								From Special Assessments and Special Charges for Outlays			From Fines, Forfeits and Eschests			From Subventions, Grants, Donations, Gifts and Pension Assessments			From Earnings of General Departments			From Highway Privileges Rents and Interest			From Earnings of Public Service Enterprises		
		Property			Poll			Business and non-Business License																			
		Amount	Amount per Capita	Per Cent.	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total
New York	5,333,539	$144,619,271	$27.12	70.1	.....	$.....	.....	$ 7,407,583	$1.39	3.6	$12,202,903	$2.29	5.9	$ 901,498	$0.17	0.4	$ 2,889,469	$0.54	1.4	$ 1,462,126	$0.27	0.7	$17,054,478	$3.20	8.3	$19,716,063	$3.70	9.6
Chicago	2,397,600	45,168,386	18.84	56.0	.....	.....	.....	9,642,119	4.02	12.0	6,291,854	2.62	7.8	71,270	0.24	0.7	1,426,538	0.59	1.8	2,514,240	1.05	3.1	7,062,334	2.95	8.8	7,946,146	3.31	9.8
Philadelphia	1,657,810	26,342,711	15.89	58.2	68,544	0.04	0.2	2,257,069	1.36	5.0	1,036,363	0.62	2.3	71,480	0.04	0.2	1,616,418	0.98	3.6	2,146,372	1.29	4.7	6,436,904	3.88	14.2	5,266,518	3.18	11.6
St. Louis	737,497	13,802,131	18.71	59.2	.....	.....	.....	2,130,840	2.89	9.1	2,859,722	3.88	12.3	184,260	0.25	0.8	388,401	0.53	1.7	607,400	0.82	2.6	926,016	1.26	4.0	2,419,428	3.28	10.4
Boston	734,747	25,475,948	34.67	73.0	141,668	0.19	0.4	1,270,970	1.73	3.6	291,461	0.40	0.8	73,788	0.10	0.2	312,814	0.42	0.9	1,040,272	1.42	3.0	3,002,334	4.09	8.6	3,270,419	4.45	9.4
Cleveland	639,431	11,452,726	17.91	63.3	.....	.....	.....	979,138	1.53	5.4	1,356,179	2.12	7.5	91,092	0.14	0.5	344,275	0.54	1.9	1,118,511	1.75	6.2	794,021	1.24	4.4	1,959,743	3.06	10.8
Baltimore	579,590	9,562,225	16.50	60.1	.....	.....	.....	1,127,300	1.94	7.1	294,527	0.51	1.8	7,336	0.01	(b)	604,534	1.04	3.8	565,413	0.98	3.6	1,738,975	3.00	10.9	2,002,087	3.46	12.6
Pittsburgh	564,878	14,277,296	25.28	70.7	(a)	(a)	(a)	907,688	1.61	4.5	440,536	0.78	2.2	86,866	0.15	0.4	574,484	1.02	2.8	586,527	1.04	2.9	1,213,827	2.15	6.0	2,115,556	3.75	10.5
Detroit	546,183	11,246,511	20.59	64.0	.....	.....	.....	766,675	1.40	4.4	1,525,375	2.79	8.7	51,678	0.09	0.3	1,019,491	1.87	5.8	1,105,244	2.02	6.3	374,111	0.68	2.1	1,470,038	2.69	8.4

*Compiled from "Financial Statistics of Cities," 1915, Bureau of the Census.
(a) Not given separately.
(b) Less than one-twentieth of one per cent.

REDUCTION RATIO 10:1

PM-MGP
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC



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REVENUE OF THE CITIES OF THE UNITED STATES HAVING A POPULATION IN EXCESS OF 500,000, DISTRIBUTED BY SOURC

REVENUE RECEIPTS

	Population	From Taxes									From Special Assessments and Special Charges for Outlays			From Fines, Forfeits and Escheats			From Subventions, Grants, Donations, Gifts and Pension Assessments			From Earnings of Departme	
		Property			Poll			Business and non-Business License													
		Amount	Amount per Capita	Per Cent.	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Cap
New York	5,333,539	$144,619,271	$27.12	70.1	.....	$.....	.....	$ 7,407,583	$1.39	3.6	$12,202,903	$2.29	5.9	$ 901,498	$0.17	0.4	$ 2,889,469	$0.54	1.4	$ 1,462,126	$0.27
Chicago	2,397,600	45,168,386	18.84	56.0	.....	.....	.....	9,642,119	4.02	12.0	6,291,854	2.62	7.8	71,270	0.24	0.7	1,426,538	0.59	1.8	2,514,240	1.05
Philadelphia	1,657,810	26,342,711	15.89	58.2	68,544	0.04	0.2	2,257,069	1.36	5.0	1,036,363	0.62	2.3	71,480	0.04	0.2	1,616,418	0.98	3.6	2,146,372	1.29
St. Louis	737,497	13,802,131	18.71	59.2	.....	.....	.....	2,130,840	2.89	9.1	2,859,722	3.88	12.3	184,260	0.25	0.8	388,401	0.53	1.7	607,400	0.82
Boston	734,747	25,475,948	34.67	73.0	141,668	0.19	0.4	1,270,970	1.73	3.6	291,461	0.40	0.8	73,788	0.10	0.2	312,814	0.42	0.9	1,040,272	1.42
Cleveland	639,431	11,452,726	17.91	63.3	.....	.....	.....	979,138	1.53	5.4	1,356,179	2.12	7.5	91,092	0.14	0.5	344,275	0.54	1.9	1,118,511	1.75
Baltimore	579,590	9,562,225	16.50	60.1	.....	.....	.....	1,127,300	1.94	7.1	294,527	0.51	1.8	7,336	0.01	(b)	604,034	1.04	3.8	565,413	0.98
Pittsburgh	564,878	14,277,296	25.28	70.7	(a)	(a)	(a)	907,688	1.61	4.5	440,536	0.78	2.2	86,866	0.15	0.4	574,484	1.02	2.8	586,527	1.04
Detroit	546,183	11,246,511	20.59	64.0	.....	.....	.....	766,675	1.40	4.4	1,525,375	2.79	8.7	51,678	0.09	0.3	1,019,491	1.87	5.8	1,105,244	2.02

*Compiled from "Financial Statistics of Cities," 1915, Bureau of the Census.
(a) Not given separately.
(b) Less than one-twentieth of one per cent.

ITIES OF THE UNITED STATES HAVING A POPULATION IN EXCESS OF 500,000, DISTRIBUTED BY SOURCE.*

REVENUE RECEIPTS

Business and Business License		From Special Assessments and Special Charges for Outlays			From Fines, Forfeits and Escheats			From Subventions, Grants, Donations, Gifts and Pension Assessments			From Earnings of General Departments			From Highway Privileges Rents and Interest			From Earnings of Public Service Enterprises		
Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total	Amount	Amount per Capita	Per Cent. of Total
$1.39	3.6	$12,202,903	$2.29	5.9	$ 901,498	$0.17	0.4	$ 2,889,469	$0.54	1.4	$ 1,462,126	$0.27	0.7	$17,054,478	$3.20	8.3	$19,716,063	$3.70	9.6
4.02	12.0	6,291,854	2.62	7.8	71,270	0.24	0.7	1,426,538	0.59	1.8	2,514,240	1.05	3.1	7,062,334	2.95	8.8	7,946,146	3.31	9.8
1.36	5.0	1,036,363	0.62	2.3	71,480	0.04	0.2	1,616,418	0.98	3.6	2,146,372	1.29	4.7	6,436,904	3.88	14.2	5,266,518	3.18	11.6
2.89	9.1	2,859,722	3.88	12.3	184,260	0.25	0.8	388,401	0.53	1.7	607,400	0.82	2.6	926,016	1.26	4.0	2,419,428	3.28	10.4
1.73	3.6	291,461	0.40	0.8	73,788	0.10	0.2	312,814	0.42	0.9	1,040,272	1.42	3.0	3,002,334	4.09	8.6	3,270,419	4.45	9.4
1.53	5.4	1,356,179	2.12	7.5	91,092	0.14	0.5	344,275	0.54	1.9	1,118,511	1.75	6.2	794,021	1.24	4.4	1,959,743	3.06	10.8
1.94	7.1	294,527	0.51	1.8	7,336	0.01	(b)	604,034	1.04	3.8	565,413	0.98	3.6	1,738,975	3.00	10.9	2,002,087	3.46	12.6
1.61	4.5	440,536	0.78	2.2	86,866	0.15	0.4	574,484	1.02	2.8	586,527	1.04	2.9	1,213,827	2.15	6.0	2,115,556	3.75	10.5
1.40	4.4	1,525,375	2.79	8.7	51,678	0.09	0.3	1,019,491	1.87	5.8	1,105,244	2.02	6.3	374,111	0.68	2.1	1,470,038	2.69	8.4

Philadelphia runs ahead of Pittsburgh particularly in revenue from the earnings of general departments, and highway privileges, rents and interest; Cleveland in receipts from special assessments and earnings of general departments; Baltimore in the case of business and license taxes and highway privileges, rent and interest; Detroit in the matter of special assessments, subventions, etc., and earnings of general departments.

A study of the table would seem to indicate, therefore, that while several cities of this class derive a smaller proportion of their revenues from taxes on property, and especially taxes on real estate, than does Pittsburgh, there is no uniformity in the systems of the different cities. It would appear rather that each city has its own peculiar forms of income, depending on special characteristics of the several cities, or of the laws under which they operate.

AUTOMOBILE AND LIQUOR LICENSES

The most important sections of the so-called "automobile law" of 1913, are summarized or quoted below:

Registration Fees

Section 6 provides for the following registration fees:

Motor cycles	$ 3
Motor vehicles, with pneumatic tires (if registered prior to July 1 of any year)	
Less than 20 horse power	5
20 to 35 horse power	10
35 to 50 horse power	15
Over 50 horse power	20
Motor vehicles, with solid tires, other than traction engines,	
Less than 4000 pounds, gross weight	5
4,000 to 5,000 pounds, gross weight	10
1,000 to 10,000 pounds, gross weight	15
10,000 to 15,000 pounds, gross weight	20
15,000 to 24,000 pounds, gross weight	25
Traction engines, with metal wheels,	
Up to 20,000 pounds, gross weight	10
20,000 to 25,000 pounds, gross weight	20

The fees for registration of vehicles trailing after or propelled by motor vehicles are $3 for each vehicle of less than 10,000 pounds, gross weight of vehicle and load combined, and $5 for vehicles of more than 10,000 and less than 24,000 pounds gross.

No vehicle is registerable which exceeds 90 inches outside over-all width of vehicle and load, except that passenger motor busses to be used in cities of the first, second and third classes, may be registered up to 100 inches; or which exceeds 24,000 pounds gross weight of vehicle and load; or which exceeds 18,000 pounds upon any axle; or which exceeds 750 pounds upon any one wheel for each inch of width of solid tire.

"No motor vehicle self-propelled and equipped with metal tires shall be licensed as aforesaid, but the owner shall, upon application to the Highway Commissioner, upon payment of the proper fee, be given a special license, subject to the rules and requirements to be established by the Highway Commissioner as provided by law."

The fees when issued on or after July first are one-half those noted above. All registrations expire after December 31 of the year for which issued.

To persons registered in the dealers' class the fee is $10 for each certificate and pair of number tags issued.

Disposition of Receipts

Section 10 provides that all moneys derived from registrations and license fees shall be paid by the State Highway Department into the State Treasury for safe keeping. Kept as a separate fund, it is available upon requisition of the State Highway Commissioner for the single purpose of assisting in the construction, repair, etc., of State highways and State-aid roads as prescribed in the highways Act of 1911.

Local Registration and Tax

Section 15 provides as follows:

"No city, county, borough, incorporated town, or township shall adopt, enforce, or maintain any ordinance, rule, or regulation contrary to or inconsistent with the terms of this act; or fix a rate of speed lower than that permitted by this act; or require of any person any license tax upon or registration fee for any motor vehicle, or any permit or license to operate vehicles upon the public highways; except that in parks the proper authorities may restrict the speed of motor vehicles to such a rate as may seem reasonable, provided said rate of speed shall not be less than that allowed other vehicles and that legible signs shall be conspicuously placed indicating the rate of speed permitted. Operators of motor vehicles shall have the same rights upon the public streets and highways as the drivers of any other vehicles, and no public road open to horse-drawn vehicles shall be closed to motor-vehicles."

Automobiles are constantly demanding better county roads and city streets. The work of policing the city, also, both for the protection of pedestrians and motorists, is becoming more complex and expensive. It has been stated that automobiles make but little impression on improved streets, but the recent refacing of the boulevard and other streets in the city is convincing evidence to the contrary. It is conceded, of course, that trucks with solid tires are particularly hard on streets; the effect of their increasing size and weight is already showing on the bridges.

The expense of constructing and maintaining the boulevards and streets of the city falls upon thousands of taxpayers who do not own automobiles. None of the revenue received from registration fees by the State is returned to the city treasury. Unless some revenue can be derived directly from the vehicles which have made these improvements necessary the increasing expense involved must be met by general taxation, which means for the city a tax upon real estate. Every vehicle should pay something toward the upkeep of the city and state roads.

Your Committee recommends:

(1) That on all motor vehicles the registration fees be increased 50 per cent, and that the total revenue from this source be divided as follows: 40 per cent to the State, 30 per cent to the county, and 30 per cent to the city, township, or borough—residence of the person taking out the license to control the distribution.

(2) That the license now collected by the city on horse-drawn vehicles be taken over by the State, to be distributed as above, and that such vehicles throughout the State contribute their share, with like administration and distribution as in the case of automobiles.

It is urged that these recommendations be adopted as a whole, as the fairness of the charges and distribution depends upon reaching all vehicles alike and dividing the revenues according to the cost of maintaining the roads and streets.

Liquor Licenses

Your Committee recommends that the $100 liquor license tax, or fee, now paid to the State shall accrue to the city.

A STATE INCOME TAX

Your Committee recommends the adoption of a graduated income tax in this State. (A full discussion of the evolution of the income tax with a detailed analysis of the income tax laws of Wisconsin, Massachusetts and the proposed law in New York will be found in the Appendix.)

Your Committee does not understand that it is its function to draft legislative bills in consonance with its recommendations, but we wish to suggest the following features as desirable in an income tax law for this State:

1. The adoption of the principle of graduation or progression.
2. The placing of the exemption limit low enough (say $1,200 for an unmarried man) to include all incomes above the level of subsistence.
3. The adoption of the principle of "information at source," rather than "collection at source" so far as feasible.
4. The inclusion at the outset of individuals only and not corporations. Experience with the system as applied to persons may lead later to its application to corporations.
5. The adoption of the practice of permitting the person paying a personal property tax to apply that payment on his income tax, until such time as the income tax can supplant the personal property tax altogether.
6. The distribution of the proceeds of the tax as follows: (a) retention by the state of a sufficient percentage (possibly about 5 to 10 per cent) to cover the expense of administering this and other State tax laws; (b) distribution of the balance to the counties in proportion to their taxable valuations—the counties retaining (say) one-third of such balance, and distributing the remainder to the cities, boroughs and townships within its boundaries in proportion to their respective taxable valuations.

This distribution is only suggestive, and may be adjusted according to the needs of the several political units involved.

7. The creation of a tax commission, or the office of tax commissioner to administer the law, including the appointment of income tax assessors as in the Wisconsin and Massachusetts laws.

Your Committee realizes, of course, that these proposed changes in our revenue system will appear to some as revolutionary, and to all as fraught with constitutional and legislative difficulties. But these difficulties should not deter those who seek a more equitable and scientific adjustment of our tax system to bring it into line with present-day requirements. Your Committee recommends that every proper influence be utilized to develop a strong sentiment throughout the State favorable to the calling of a convention for the revision and modernizing of the State Constitution.

BUSINESS TAXES

It has been said that "mercantile business is subject to more varieties of taxation than any other form of industry, with the possible exception of the public service corporation." (Report of Committee of Mercantile Business, Fifth Annual Conference of the National Tax Association, 1911.)

In the opinion of your Committee, absolutely no valid reason exists for the tax on gross receipts of wholesale and retail dealers in merchandise, known as the Mercantile License Tax, and it recommends that the law providing for this tax should be repealed. Your Committee believes it states the case fairly when it says that the only reason the tax has been allowed to remain in force so long is that a use has always been found for the amount of money collected, and that the tax is an easy one to collect. It should be noted, however, that from the stand-

point of collection cost, it is probably the most expensive tax authorized by statute. The fact remains that neither the State nor the county furnishes anything of value to the business interests not furnished to other classes of citizens that would justify this tax; nor is there anything in the nature of a special privilege to the business man to justify this tax. If any special tax on business were warranted at all, it would be in the nature of an annual registration fee of five or ten dollars, payable to the city, giving the police and fire departments and ordinance officers full information as to the ownership and nature of the business conducted, which sum would tend to compensate the city for special inspections of business houses now made in connection with various local ordinances and state laws.

Your Committee has considered forms of business taxes now levied, or proposed to be levied, in other cities, states and foreign countries, but does not approve of any of them.

A tax on trading stamps and similar devices has been suggested. As this tax would tend to be a regulative measure rather than a revenue producer, your Committee deems it unwise to express any opinion on the subject. The same reasoning applies to what are known as "billboards."

The general question of licenses is treated elsewhere in this Report.

OCCUPATION TAX

The so-called "occupation tax" is levied upon all "salaries and emoluments of office, all offices and posts of profit, professions, all single freemen over the age of twenty-one years, who shall not follow any occupation or calling, and all trades and occupations, except the occupation of farmer."

This tax is a survival of the old State tax of 1844, but for many years it has been a county tax levied and collected for county, school and other local purposes. It is not in any sense an income tax, but is based upon an arbitrary schedule of occupations by classes presumably representing some sort of test of ability to pay. Thus in the booklet of instructions prepared by the Board for the Assessment and Revision of Taxes and issued to the subordinate assessors of Allegheny County, the "Schedule of Classification of the Valuation of Occupations" classifies alphabetically several scores of occupations, and assigns to each a tax rating varying from $150 to $2,000. Bankers and presidents of corporations are rated at $2,000; architects, attorneys, brokers, bank cashiers, general contractors, city and county officials, distillers, house raisers, judges, manufacturers, wholesale merchants, oil producers, city postmaster, treasurers, and wholesale liquor dealers are rated at $1,000; and from this group the rating or valuation of occupations shades down to $150 for an apprentice, or common laborer; $200 for a coachman or driver; $300 for bill posters and brakemen; $400 for a jeweler, a heater helper, or laundry driver; $500 for a minister, priest or police captain; $800 for a physician or hotel keeper, etc., etc. On these assessments the taxpayers pay the regular county millage which results in very small amounts.

This tax is objectionable not only because of its obvious inequality and impracticability, but also because, according to the statements of the taxing officials, it costs more to levy and collect than the revenue produced from it. The Report of the New York Bureau of Municipal Research, employed in 1914 to make an efficiency investigation for the County, said of the occupation tax: "Our examination of the operation of the occupation tax indicates that the law requiring it should be repealed. It is noted that, although the possession of an occupation receipt is a prerequisite to voting and the tax is assessed every year, nevertheless a receipt so far as voting is concerned is good for two

years. A great many persons, therefore, pay the tax only every second year. When the cost of assessing this tax and transcribing it in the assessors' office is considered in connection with the small amount derived, the argument appears conclusive for discontinuing the tax."

The adoption of a state income tax with a distribution of a percentage of the proceeds to the county, as elsewhere suggested in this Report, would leave no excuse whatever, if indeed any can now be adduced, for a continuance of the occupation tax. If it be deemed desirable to retain some form of a "voting tax" a flat registration tax might be collected, preferably at the time and place of registration.

PERSONAL PROPERTY TAX

Pennsylvania has from a very early day been free from the inequalities, injustice and dissatisfaction which inevitably inhere in the general property tax. One of the most prolific sources of unfairness and inequality in such a tax survives, however, in the personal tax. This State has, indeed, been taxing personal property for state purposes since 1831. The original law of 1831 was limited to a period of five years and was repealed in 1836, but the enormous expenses connected with the construction of the public works, and the default in the payment of interest by the Commonwealth in 1843, led to the enactment of the law of 1844 taxing various forms of personal property. Many forms of personal property taxable under this act and subsequent laws have, however, become exempt.

Pennsylvania's apparently successful experience in taxing intangibles at the low rate of 4 mills has led other states—first Maryland and Connecticut, and more recently Minnesota, Iowa and Rhode Island—to adopt this principle with modifications to suit local conditions. Thus, Maryland for twenty years has taxed certain forms of tangible property at about 4.8 mills, including a uniform rate of 3 mills for local purposes, and for state purposes a general property rate varying between 1.6 mills and 3.1 mills. By recent amendment, Maryland now imposes a uniform rate of 3 mills for local purposes and 1.5 mills for state purposes. The Maryland law applies only to such intangibles as bonds and certificates of indebtedness issued by corporations (except state, county and municipal bonds), and the stocks of foreign corporations which have paid interest during the year. It does not apply to ordinary mortgages, shares of Maryland corporations, book accounts, bank deposits, holdings of savings banks, or of domestic corporations under certain conditions, or to holders of unproductive securities.

The Maryland low rate tax on intangibles has had a large measure of success in Baltimore which for several years enjoyed the advantages of an unusually efficient taxing official; elsewhere in the state the law by reason of weak administration has been a partial, and in some cases an utter, failure. "The lamentable lack of success in some of the rural counties as compared with the city of Baltimore was one of the principal arguments which led to the creation of the tax commission with centralized power. Moreover, 'nearly one-third of the revenue from the 3-mill tax in Baltimore comes from a few railroads that are incorporated under the laws of Maryland and own the shares of companies outside the state.' It must be remembered, also, that Maryland taxes under this law the holdings of insurance companies. Maryland's experience indicates that even a rate as low as 3 mills cannot be collected under decentralized administration. The local assessors cannot be depended upon, unless closely supervised or controlled by a centralized body."[1] The reports of the taxing officials attest the fact that in every community a vast amount of securities subject to this tax escapes taxation.

Since 1911 Minnesota has had a 3-mill tax on intangibles which requires the separate listing of: money in hand or on deposit, promissory

(1) Report of Joint Legislative Committee (N. Y.), p. 177.

notes, bonds other than mortgages on Minnesota real estate, municipal bonds, book accounts, annuities, royalties and all claims and demands for money and other things of value. It does not apply to money and credits of incorporated banks, shares of stock, mortgages secured within the state, or municipal bonds. No deductions for debt are allowed.

Collections are made by the counties, and apportioned 1/6 to the state, 1/5 to the counties, 1/3 to cities or towns, and 1/3 to the school district in which the property is assessed. The Minnesota law has been successful as a means of putting a large amount of intangible personalty on the tax rolls which formerly escaped taxation, but from a revenue standpoint its success has not been great. Minnesota has a state tax commission.

In Connecticut, Rhode Island and Iowa the experience with the low rate on intangibles has been reported as satisfactory, but without marked success.

The Tax on Intangibles

The 4-mill tax on intangibles in Pennsylvania applies to the following classes of personal property: mortgages, money owing by solvent debtors, money at interest, vehicles used for transporting passengers for hire, annuities yielding over $200 a year, public securities not exempt from taxation, shares of stock in all corporations except such as are subject to taxation upon their capital stock or business in the State, the loans of counties, cities and minor political divisions, and the loans of business corporations doing business in Pennsylvania.

The system has two parts: (1) the so-called corporate loan tax upon the loans of (a) counties and municipalities, and (b) business corporations doing business in the State; and (2) the tax on intangible property other than corporate loans as above noted.

The corporate loan tax is deducted by the treasurer of the counties, municipalities, and business corporations when paying interest on loans and is converted into the State Treasury—a marked example of successful "collection at source." The original intention of the law was to levy upon the bonds of all domestic corporations as well as upon other bonds held in the State, but the Supreme Court decided that a corporation cannot be compelled to deduct a tax from interest paid to non-resident bondholders, and that a foreign corporation doing business in the State cannot be required to deduct a tax from interest disbursed in another state. As a result of these decisions this tax has been limited to domestic corporations and to such bonds of Pennsylvania corporations as are owned by residents of Pennsylvania.

Despite these limitations the yield from the corporate loan tax has steadily increased as shown by the revenue tables elsewhere presented.

The tax upon intangible property other than corporate loans is essentially a county tax, being assessed by the county officials on the basis of returns made by the taxpayers, and inuring wholly to the county. Prior to 1913 the state retained one-fourth of this tax, but now all of the proceeds goes to the county.

The law requires every person to make a return annually under oath of all taxable money, credits and securities. Upon the refusal or failure of any person to make the required return, the assessors are authorized to make an assessment from the best information they can obtain. It is well understood that this arbitrary assessment feature is not generally or rigidly enforced, and that millions of dollars of intangible property and thousands of persons subject to this tax go untaxed year after year. In fact, it is scarcely an exaggeration to say that the vast majority of professional and business men even in our larger cities never make a return of their intangibles. Not a small proportion of these men, if questioned, would express surprise at the existence of such a law, while many who do know of its existence account for their failure to make returns either on the ground that their neighbors and associates fail to do so, or that the assessors do not leave the necessary blanks and

they do not consider it their duty to seek out the assessor to volunteer the information that they have credits or securities which should be taxed. As evidence of the laxity with which this tax is enforced it may be noted that in all the years of its existence there has never been a prosecution for a false return or failure to make the required return.

It is of interest to note that this low 4-mill rate on corporate loans has not driven this class of property from the state; in other states where the general property tax applies there has been such a tendency. In recent years corporations have frequently assumed the payment of the tax in order that they might advertise their bonds as tax-free in Pennsylvania. This assumption, in a measure, defeats the purpose of the law which was intended to tax all intangible personal property. The tax on the loans of private corporations is not in any sense a tax upon the corporation or its property, but upon the personal property of the citizen owning the bonds, mortgages, or other evidence of indebtedness of Pennsylvania corporations, assessed and collected by the treasurer of the corporation as the agent of the State. He is entitled to deduct from the gross amount of tax assessed his compensation as follows: 5 per cent on the first $1,000 of tax; 1 per cent on the second $1,000 of tax; and ½ of 1 per cent on the balance of the tax.

A very large part of this tax, possibly 50 per cent, is collected from mortgages on real estate. This class of intangibles cannot escape since the recorder of deeds is required to keep a daily record of every mortgage or article of agreement given to secure the payment of money entered in his office for recording, and every assignment thereof, and to file such record with the county board of tax revision. Likewise the prothonotary or clerk of the court of common pleas is required to keep a daily record of every judgment or instrument securing a debt, entered of record in his office, and to file such record in the office of the county commissioners or with the board of tax revision.

Trust companies pay a considerable amount, possibly 20 per cent of the total, on personal property which they hold in trust. In many instances the beneficiaries of these trusts are widows and orphans who are least of all among those subject to the tax able to bear the burden.

The remaining 30 per cent is paid by persons who, because of their known wealth, holdings of securities, credits, etc., or other circumstances, attract the attention of the assessors, and by those of lesser wealth who conscientiously seek to obey the law. It is a striking commentary on the administration of this law to note that only about 15,000 individuals in Allegheny county made a return of their intangible personal property in 1915.

From the point of view of the amount of intangible personal property listed, the system is generally conceded to be successful. The following table shows in round numbers the growth in the amount of intangibles listed in the State:

1885	$ 145,300,000
1891	575,000,000
1897	673,000,000
1903	847,000,000
1906	932,000,000
1907	1,014,000,000
1909	1,141,000,000
1910	1,184,000,000
1912	1,266,000,000
1913	1,402,000,000

In favor of the existing low rate on intangibles it may be said that:

1. It is vastly superior to the old general property tax still in

existence in many states though rapidly disappearing everywhere.
2. Where the tax is collected at the source, as in the case of corporate loans, it works well.
3. It succeeds in reaching mortgages, judgment, and personal property held in trust.
4. It brings a large amount of intangible personalty upon the assessment rolls.
5. The tax is not burdensome upon investments yielding four, five, or a higher per cent.
6. It taxes the owner as a person where he resides.

Against the system it may be urged that:

1. It is inequitable *per se* in that the tax rate is uniform upon all intangibles and so recognizes no difference between the investment yielding 2 per cent and one yielding 6 per cent.
2. It is inequitable and unfair in that it reaches personal property held in trust which in many instances is the sole source of income of widows and orphans, while the security holdings of thousands of the middle class go untaxed.
3. It leaves untouched in the aggregate a vast amount of "moneyed investments" taxable under the law, because there is no source of information except the honesty of the individual in assessing himself, which by universal experience stands condemned as untrustworthy. Failure to reach this class of taxables necessarily throws the burden of raising revenue upon other classes, especially real estate which can not escape the taxing officials.
4. The failure to assess and collect this tax leaves thousands of persons with comfortable incomes without any fiscal "stake" or interest in government, city, county, or state.

Undoubtedly a more efficient collection of this tax upon intangibles, other than corporate loans or where collection or information at source prevails, would result from a greater centralization of assessments. It is everywhere recognized that one of the fundamental evils of our taxing methods is the lack of equitable and scientific assessments of property and persons as a result of which inequality, inequity, tax-dodging, perjury and discontent prevail. Under the existing system of untrained, under-paid local assessors, dependent for re-election upon the votes of those whom they assess or for re-appointment upon the favor of a local board or other authority, little advance toward equitable assessments can be expected. Experience in other states shows that satisfactory results can best be obtained by centralizing the administration of the personal property tax in the hands of a state official, free from local influence, clothed with large powers of investigation, who appoints his subordinates preferably under civil service rules and protection. Assessors will thus be free from all political or local influences, will be permanently employed, and promoted upon demonstrated ability and fitness for the office they fill.

Your Committee is of the opinion, however, that even with this kind of centralization, the present system of taxing intangibles in this State cannot be administered to accomplish results as fair and satisfactory as can be secured by means of a graduated income tax. Such a tax efficiently administered under centralized state control, preferably a tax commissioner or commissioners, would reach not only the income from intangible property, but the income from whatever source derived. Thousands who now escape taxation entirely would under such a system bear their proper share of the tax burden, and the increasingly heavy burden of taxation upon real estate would be proportionately lifted.

A summary of the evolution and operations of state income taxes, will be found in the Appendix to this Report.

CORPORATION TAXES[1]

The State of Pennsylvania derives a large part of its revenue from taxes on various classes of corporations. While recognizing that greater uniformity of tax rates on the various classes of corporations might be desirable, your Committee confines itself to the following recommendations.

(It may be noted that if a tax on the incomes of corporations be substituted for the present capital stock tax, the comments and recommendations regarding all but exemption matters would be inapplicable.)

Savings Banks Without Capital Stock: In the opinion of your Committee, no good reason now exists for exempting saving banks without capital stock from taxation similar, even if not altogether equal, to the bank stock tax on savings banks with capital stock. The surplus at least should be taxed.

Banks with Capital Stock: In the law taxing bank stocks, which provides for a 4-mill tax on the actual value of the stock, determined by adding capital, surplus and undivided profits, the privilege is given to pay 10 mills on the par value of the shares at the option of the bank. In the year 1912 it was estimated that the State lost $400,000 by the giving of this privilege; and it has been stated that this alternative discriminates against the smaller banks, in favor of the larger ones. The law should be changed, cancelling this special privilege. (See, also, the recommendations in the following paragraphs.)

Trust Companies and Title Insurance Companies: Since 1907 the value of capital stock of title insurance and trust companies, on which there is a tax of 5 mills, has been ascertained by adding the capital stock, surplus and undivided profits. The value of the capital stock of corporations paying the 5-mill tax is measured not only by "book value," but also by net earnings. The difference can be made clear by an example: a corporation whose business is that of buying and selling coal may have capital stock of the same "book value" as that of a trust company, and each may be earning a net profit of twenty per cent on its capital stock, yet the coal company will pay a tax possibly twice as great as that of the trust company, because the coal company's "book value" is multiplied by some figure representing someone's judgment of the relation of net earnings and capital stock value.

If corporation taxes are to be based on the value of the capital stock, all corporations, irrespective of the character of their business, should have such value measured by the same uniform method, although it is obvious that the relation between net earnings and capital stock will differ in the different classes of corporations. At present this relation is left to the judgment of the Auditor General's Department in reviewing the appraisals made by corporation officials.

Corporations Engaged in Manufacturing: In considering the exemption that manufacturing corporations enjoy to the extent of that part of their capital stock employed within the State in manufacturing, this anomaly appears: a corporation having all its capital employed in manufacturing within the State pays no more tax than an unincorporated company similarly located. The theory of corporation taxation is that the corporation is a creature of the State, given certain privileges withheld from unincorporated bodies, and that it should pay the State for these privileges. From a taxation standpoint, as well as that of equity, a manufacturing corporation having its entire capital employed in manufacturing within the State should pay a tax to the State. Your Committee is of the opinion that instead of the present full exemption of tax on that part of the capital stock employed in manufacturing within the State, the exemption should be reduced at once by one-fifth; that is to say, manufacturing corporations should pay, to begin with, one mill on capital stock employed in manufacturing within the State, besides the present five mills on capital stock not so employed. One year after

[1] A full discussion of State taxation will be found in the Appendix.

this reduction the exemption should be further reduced by requiring a tax of 2 mills on that part of the capital stock now exempt; and so on annually until the manufacturing corporation pays the same *corporation* tax as the non-manufacturing company, *for the privilege of conducting its operations under corporate form.* An unincorporated manufacturing company of course does not pay this tax. So it should be apparent that no question of "taxing industry" is involved. The question is one of special privilege to a certain class of corporations, and your Committee believes that Pennsylvania's prosperity has a deeper foundation than the one-half per cent special privilege in favor of *incorporated* manufacturers.

Because of the increased revenue which the State would derive from the abolition of this exemption, it may, perhaps, be deemed advisable to reduce the rate of taxation on corporations generally.

Local Exemption of Machinery: The question of the exemption of machinery in Pittsburgh can best be treated at this point, although this exemption, of course, is in favor of all alike, unincorporated and incorporated. Machinery, as such, is nowhere taxable in Pennsylvania; machinery that is so attached to the ground or building as to become, in the legal sense, a part of the real estate, is taxable everywhere as buildings (that is, it is included in the assessed building valuation and taxed,) unless there is some special exemption law. Cities of the first and second class (Pittsburgh and Scranton) exempt such machinery as would ordinarily be taxable. Allegheny County taxes all such machinery, as do also the cities, townships and boroughs in the County outside of Pittsburgh.

If the exemption of machinery in Pittsburgh should be removed, it would become taxable as buildings, and at once the "graded tax law" would operate, reducing the tax immediately by twenty per cent, in 1919 by thirty per cent, in 1922 by forty per cent, and in 1925 by fifty per cent. Your Committee recommends that the special exemption of machinery in Pittsburgh be removed. The additional revenue from this source would be considerable, tending to reduce by just so much the tax burden on other forms of property.

A little further discussion of manufacturers' exemptions may be profitable here. Let us consider what usually attracts a manufacturer to a particular location. If he does not choose the place where he resides, for no other reason than that it is his home, it is either nearness to his supply of raw material, or to his supply of labor, or to his selling market. Economy or efficiency is the basis for his choice. It should be obvious that a saving of one-half of one per cent (the five mill capital stock tax) would not be the deciding factor if any of the three "proximities" just mentioned amounted to more than that. Other things being equal, the tax exemption might be a deciding factor, but other things seldom are equal. The same line of reasoning holds true in the case of the machinery exemption. The machinery exemption, moreover, causes great difficulties of administration; for example, are blast furnaces machinery? And if machinery is exempted, why not exempt a building in which a chemical is manufactured by the mere mixing of ingredients, or the barn in which the farmer stores his wheat? A beginning has been made in Pittsburgh in untaxing improvements through the operation of the graded tax law, previously noted. Should not all improvements enjoy equally the benefits of this law?

If it be claimed by those in favor of these exemptions that they influence industries to locate or remain in Pittsburgh or in Pennsylvania, let them examine the facts. A tax law may be changed any day; supplies of material and labor and a selling market in a neighborhood are more permanent. Manufacturing in Allegheny County outside of Pittsburgh has grown as rapidly as in Pittsburgh, but without a machinery exemption. Manufacturing has increased rapidly in Ohio. Will an abolition of exemptions drive industries there, where the personal property of a manufacturer is taxed at the same rate as his real estate,

and where, while the capital stock tax rate is lower, there is no exemption? From a manufacturing standpoint, Pittsburgh and Pennsylvania depend upon their resources, their location and their labor for industrial greatness, not upon tax exemption privileges. Let us not discriminate against our manufacturers, but let us be equally careful not to discriminate in favor of them against other forms of business activity.

Our progressive sister city, Cleveland, is often cited as an example of a rapidly-growing municipality where manufacturing is thriving and increasing. A comparison of the taxes paid by manufacturers should, therefore, be of particular interest. The Report of the Special Tax Commission of the City of Cleveland, 1915, (p. 12), presents a list of "six manufacturing industries, which are among the largest in the City of Cleveland," having a total land valuation of $1,371,690, a total building valuation of $3,266,740, a total personal property valuation of $5,185,715, a tax rate, *not only on land and buildings but also on personal property,* of 15.1 mills, and a total tax paid of $148,344.58. (Apparently the figures are for 1914.) In that year in the Old City of Pittsburgh, manufacturing property with the land and building valuation mentioned above would have paid a city tax of 9.4 mills (10 per cent less on buildings,) a school tax of 6 mills, and a county tax of 2.75 mills, or a total tax of $81,216.77. Beyond this point comparisons become a little more difficult; but it will be noted that between $148,344.58 and $81,216.77 there is a considerable margin. The bulk, in value, of the machinery of large manufacturing concerns is so attached to the land as to become a part of the freehold, so that it may be presumed that the building valuations given above include a large machinery valuation. Ohio corporations pay 1½ mills on capital stock to the state, Pennsylvania corporations pay 5 mills, but the methods of valuation differ. It is confidently asserted that the difference of $67,127.81 in the tax in favor of the Pittsburgh manufacturers would pay the tax on any exempted machinery not included in the building valuations given, and also the difference in the corporation taxes in the two states, even if the partial exemption in favor of manufacturing corporations' capital stock in Pennsylvania were removed, and still leave a good balance in favor of Pittsburgh manufacturers.

Further evidence of the superior advantages from the standpoint of taxation, employed by Pittsburgh as compared with Cleveland and other manufacturing cities is presented in the following table from the "Economic Survey of Pittsburgh" made by Dr. J. T. Holdsworth in 1912:

	AS LOCATED.					IF LOCATED IN PITTSBURGH.				
	Assessments				Taxes (City and County)	Assessments				Taxes (City and County)
	Land	Buildings	Personal	Total		Land	Buildings	Personal	Total	
DETROIT.					22.44 mills					17.75 mills
Burroughs Adding Mch. Co.	$ 46,900	$ 207,000	$1,100,000	$1,353,900	$30,381.52	$150,000	$ 207,000	None	$ 357,000	$ 6,335.70
Packard Automobile Co	46,040	564,100	1,500,000	2,110,000	47,340.64	150,000	564,000	None	714,000	12,673.50
Detroit Twist Drill Co	5,890	22,000	85,560	113,450	2,545.81	12,000	22,000	None	34,000	602.50
MILWAUKEE.					16.29 mills					
Pabst Brewing Co	335,000	1,986,100	1,646,800	3,967,900	64,646.09	450,000	1,986,100	None	2,436,100	43,240.77
Allis-Chalmers Co	440,000	210,000	801,600	1,451,600	23,646.56	572,000	210,000	None	782,000	13,880.50
International Harvester	221,000	875,000	790,000	1,886,000	30,722.94	285,000	875,000	None	1,160,000	20,580.00
Johns-Manville Co.	90,000	200,000	120,000	410,000	6,678.90	120,000	200,000	None	320,000	5,680.00
NEWARK.					19.3 mills					
W. B. Corset Co.	16,900	45,100	55,000	117,000	2,258.10	21,000	45,100	None	66,000	1,171.50
Clark's O. N. T. Thread	127,500	200,500	500,000	828,000	15,980.40	175,000	200,500	None	375,500	6,684.12
Murphy Varnish Co	19,000	91,000	150,000	260,000	5,018.00	30,000	91,000	None	121,000	2,157.75
BUFFALO.					24.7 mills					
Thomas Motor Co	13,700	160,000	50,000	223,700	5,525.23	35,000	160,000	None	195,000	3,283.75
CLEVELAND.					13.6 mills					
White Automobile Co	85,700	650,000	1,000,000	1,737,700	23,632.72	215,000	650,000	None	865,000	15,353.75
Peerless Motor Co	57,150	514,900	853,400	1,424,400	19,371.84	123,600	514,900	None	638,500	11,333.38
Lake Erie Iron Co	106,700	241,000	400,000	747,700	10,168.72	322,000	241,000	None	563,000	10,007.45
Bishop and Babcock	36,100	95,100	735,610	866,800	11,788.48	115,500	95,100	None	210,600	3,378.15
Cleveland Twist Drill Co	59,000	151,000	500,000	710,000	9,656.00	108,500	151,000	None	259,500	4,606.13
Cleveland Hardware Co	61,890	290,900	710,600	1,063,400	14,462.24	135,250	290,900	None	426,150	7,564.16
American Steel Wire	228,900	217,250	600,000	1,046,100	14,226.96	425,000	217,250	None	642,250	11,399.94
Brown Hoisting Machine Co	165,200	410,000	850,000	1,425,200	19,382.72	255,500	410,000	None	665,500	11,812.63
The H. Black Co	27,900	125,000	301,200	454,000	6,074.40	45,000	125,000	None	170,000	3,017.50

INHERITANCE TAX

Pennsylvania has raised revenue for state purposes by a tax on inheritance longer than any other state in the Union. As early as 1826 the Legislature imposed a tax on collateral inheritances, which it has maintained down to the present time. The present tax is based on an act passed in 1887, amended since only in minor particulars. Even at this later date, sixty years after the adoption of the tax by Pennsylvania, only four other states in the Union had such a law on their statute books. Maryland had introduced the tax in 1845, Delaware in 1869, New York in 1885 and West Virginia in 1887.[1]

Since this date, however, as will be seen from the table appended, the use of the tax on collateral inheritances has spread rapidly. To-day forty-three states have adopted it in some form and only five states are without it.

While Pennsylvania deserves the credit of being the first state to make use of the inheritance tax, other states have gone far beyond it in the development of the tax. In two fundamental respects the Pennsylvania law much needs amendment.

(1) The tax should be applied to direct inheritances.

(2) The tax rate should be made progressive, both with respect to to the size of the inheritance and with respect to the degree of relationship of the heir.

The Tax Should Be Applied to Direct Inheritances

That both students of taxation and the general public are rapidly reaching the conclusion that a properly levied tax on direct inheritances is a desirable tax may be inferred from the extent to which such a tax has already been adopted. As will be seen from the accompanying table, New York was the first state to impose a direct inheritance tax. It was introduced in that state in 1891. Since that time it has been adopted by 31 other states, of which one has abandoned it, so that it is now in use in nearly two-thirds of the states of the Union.

Yet there still survives a considerable amount of opposition to the use of this tax. It may be worth while, therefore, to consider how much ground there is for this opposition.

No one can seriously maintain that either the right of bequest or the right of inheritance is a natural right. They are both rights created and enforced by society, not in recognition of any natural right of one individual to control the disposition of his property after his death, or of another to receive title to property left by the deceased, but for the accomplishment of certain practical ends. The two most obvious social advantages of the institution are the following: it stimulates industry and thrift by the incentive it holds out to the living to make adequate provision for those dependent on them; and it insures the economic independence of the individual heir and the integrity of the family life after the death of the bread winner.

How far would the imposition of a tax on inheritances interfere with either of the social advantages just mentioned? So far as the incentive to industry and thrift is concerned it would probably be increased rather than diminished by a tax on inheritances. What a man is anxious to accomplish is to leave to those dependent on him enough to enable them to maintain after his death the same standard of living that they enjoyed during his life. If a portion of his estate is to be taken for the use of the community, he will, so far as his conduct is at all affected, endeavor to increase by that much the size of his estate. For the great majority of men, however, the practical effect of the tax in this respect would be negligible.

The effect of the tax on the economic condition of the heirs is obvious. By so much as their inheritance is diminished by the tax, by

(1) Seligman: Essays in Taxation, 8th Ed. (1913), pp. 137-138.

that much is their economic well-being reduced. But any unfavorable effect of this reduction may be largely avoided by a scientific levy of the tax. By exempting a certain amount of all direct inheritances, by adopting a progressive rate, increasing as the size of the inheritance increases, and by varying the rate in accordance with the degree of relationship of the heirs, a large amount of revenue may be obtained without inflicting any appreciable amount of hardship upon the heirs.

Clearly, then, no weighty argument against the direct inheritance tax can be based on these general considerations. On the other hand some of the effects of the tax would be advantageous to society. In certain respects the unrestricted right of inheritance has unfortunate consequences. Over against the social advantages of this institution should be placed the demoralizing effect of unearned wealth upon the character of those who receive it by inheritance, and the undemocratic development of enormous family estates, passed on from generation to generation by virtue of this institution. So far as either of these evils may be checked by the use of taxes on direct inheritances, to that extent will the tax be advantageous to the community, altogether apart from the revenue it yields.

If it is agreed that the social advantages of the tax at least offset its disadvantages, the way is clear for a discussion of this form of tax on its merits. How far does it conform to the recognized principles of taxation? Revenues must be raised for public purposes. In raising these revenues the aim should be to interfere as little as possible with the productive activities of society, and to inflict the least possible hardship upon those who have to pay the taxes. Moreover, as was pointed out long ago, taxes should be uniform, certain, definite, economical to levy and collect, and levied and collected at the time and in the manner most convenient for the taxpayer. A little consideration will satisfy any one that a tax on inheritances conforms to a remarkable degree to these requirements. It is definite, it is economical, it is convenient to pay. Much in its favor is the fact that it is unavoidable. As the estate must pass through the hands of the probate court, the amount of it, and the amount of the tax due from it, is definitely established, and there can be no escape from the payment of the tax. In that respect it contrasts most favorably with such a tax as that on personal property, which, under a specious guise of uniformity results in a gross lack of uniformity, owing to the difficulties in the way of the complete assessment of such property. Moreover, the tax involves little or no interference with the productive activities of society, and the hardship it imposes upon those who pay it is reduced to a minimum. It is certainly easier, less inconvenient and less disagreeable for anyone to go without a hundred dollars he has never possessed, than to part with a hundred dollars of his past accumulations. In all these respects fewer objections can be brought against this tax than against almost any other tax that can be mentioned.

An additional argument for the tax on inheritances is to be found in the fact that it admirably supplements and rounds out the general scheme of taxation. The great bulk of public revenue is raised from income, whether the basis of assessment be direct income, or property as a rough-and-ready index of income. But the income reached by these other taxes is a man's regular and normal income. An inheritance is, so to speak, an accidental income, having no weight in a property tax, and comparatively little in an income tax, yet it greatly increases the ability of the recipient to pay taxes. There is propriety, therefore, in a special tax on this special income. And finally, the tax is in line with the modern tendency to discriminate between income from different sources, with a lower rate upon incomes from labor, sometimes called earned incomes, than upon incomes from property or other sources.

Over against all these admirable characteristics of the tax on inheritances only one serious disadvantage can be placed. The income from such a tax is more or less fluctuating. The amount of property

that passes through the probate court varies from year to year and the variation would become more marked if the amount of the estates below the exemption limit was excluded. And if the rate of the tax increased as the amount of the estate increased, the revenue from these estates would fluctuate in amount more than the estates themselves. A moment's consideration will show, however, that this fluctuation becomes less as the number of persons covered by the tax increases. The fluctuation in a single city would be so great that the tax would be quite unsuitable for municipal purposes. With an area as large as the State of Pennsylvania, however, these local fluctuations would largely offset one another, and the revenue for the State as a whole would be fairly constant.

Here then is a possible source of revenue of which Pennsylvania is making no use. The yield from it would be sufficiently large to reimburse the State for any loss of revenue it would suffer if it should see fit to accept the recommendations of this Report and turn over to the localities such distinctly local taxes as it now levies for its own use.

The Inheritance Tax Should Be Made Progressive

In order that the hardship caused by this tax on direct inheritances may be kept at a minimum, and at the same time a goodly amount of revenue may be derived from it, the tax must be progressive. Reference to the table will show that of the 31 states that have a tax on direct inheritances 21 have a progressive tax and only 11 a proportional tax. The argument for the progressive tax is unanswerable. Only by a very low rate on small inheritances and an advancing rate as the inheritance increases can the easily available amount of revenue be raised without inflicting undue hardship. A proportional rate must be a low rate. Of the 11 states that have it, eight have one per cent or less, while the other three have only two per cent.

Of the twenty states that have a progressive tax, eighteen start with a rate of one per cent, one with one-half per cent and one with three per cent. The rate advances in one case to one and one-quarter per cent, in two cases to two per cent, in six cases to three per cent, in five cases to four per cent, in two cases to four and one-half per cent, in two cases to five per cent, in one case to eight per cent and in one case to fifteen per cent. A maximum rate of five per cent is not excessive provided the limits for each rate are sufficiently high.

The progressive rate is perfected by exempting a certain amount entirely. This exemption, like the rate, should vary with the degree of relationship of the heir to the deceased. This is the case in thirteen out of the thirty-one states using the tax, but no two of the thirteen states have the same scale of exemptions. They vary from $1,000—$3,000 in Arkansas to $5,000—$25,000 in Oklahoma. Of the eighteen states that have a uniform exemption, five exempt $5,000, eight exempt $10,000, and one each exempts $2,000, $3,000, $7,500, $20,000 and $25,000. Custom and reason alike would indicate that an exemption varying from $5,000 to $10,000 with the degree of relationship would be desirable.

In a few states, the exemption is held to apply to the whole estate; in the remainder to the individual share. In Rhode Island there are two taxes, one on the whole estate and one on the inheritance. That the exemption should apply to the individual share seems to need no argument. A person receiving a bequest from a large estate should be taxed no more than one receiving a bequest of the same size from a small estate.

In 1897 the Legislature of Pennsylvania passed an act imposing a tax on direct inheritances. The act provided that estates under $5,000 should be exempt. It was held by the Supreme Court of the State that this provision violated the constitutional requirement of uniformity in taxation. That objection would probably be obviated and the progressive tax be brought within the requirements of the Constitution, if the exemption, whatever its amount, applied to all inheritances of the

same class whatever their amount, and if the advancing rate of the tax applied in each case only to the excess of the inheritance above the amount subject to the next lower rate. That is the principle followed in the case of the Federal Income Tax and in several state income and inheritance tax laws, and is not only constitutional probably but equitable.

The tax on collateral inheritances in Pennsylvania is at the flat rate of five per cent, with an exemption of $250. To make the system ideal the exemption should be abolished, and the rate made progressive. Of the forty-three states taxing collateral inheritances, eight have no exemption. There is no very convincing reason why an exemption should be allowed. In twenty-seven of the forty-three states the tax is progressive, starting at various rates from one to five per cent, and reaching a maximum varying from five per cent in two states to fifteen per cent in nine states, twenty-four in one, twenty-five in one and thirty in one. The argument for a progressive tax applies to the tax on collateral inheritances fully as strongly as to the tax on direct inheritances. A rate advancing gradually from five per cent to fifteen per cent would be in line with modern practice. Each higher rate should apply to the amount of inheritance in excess of the amount subject to the next lower rate.

Under the present law bequests for charitable purposes are not exempt in Pennsylvania. It would seem to be the part of wisdom to leave that provision unchanged. It is doubtful if anyone is ever deterred from making such a bequest on account of the tax, and the loss of income to the individual charity is offset by the gain to the State. To introduce the principle of exempting charitable bequests would only complicate the system.

In levying inheritance taxes there is always danger of double taxation whenever the deceased has had his domicile in one state and has owned property in another state. The law should provide for reciprocal arrangements with other states, under which such double taxation may be avoided.

Your Committee would recommend, therefore, that the effort be made to induce the Legislature to look to a progressive tax on both direct and collateral inheritances as a source from which sufficient revenue can be derived to offset any loss occasioned by the relinquishment by the State to the localities of any of its present sources of revenue. If it be found that a progressive inheritance tax cannot be so framed as to satisfy the constitutional requirement of taxation, every effort should be made to bring about the adoption of a constitutional amendment authorizing a progressive tax. The rate should vary both with the amount of inheritance and with the degree of relationship; and exemption and rate alike should apply not to the estate as a whole but to the individual shares. In that way, with properly adjusted rates, the maximum amount of revenue may be secured with the minimum amount of hardship.

	DIRECT INHERITANCE			COLLATERAL INHERITANCE		
	Date of Adoption	Rate (%)	Exemption	Date of Adoption	Rate (%)	Exemption
Alabama			Not Taxed			Not Taxed
Arizona	1912	1	$ 5,000–$10,000	1912	2 – 6	$500–$5,000
Arkansas	1909	1–8	$ 1,000–$ 3,000	1901	3 –24	$500
California	1905	1–15	$10,000–$24,000	1893	2½–30	$ 500–$2,000
Colorado	1901	2	$10,000	1901	3 –10	$500
Connecticut	1897	1–4	$10,000	1889	3–8	$ 500–$3,000
Delaware			Not Taxed	1869	1– 5	$500
Florida			Not Taxed			Not Taxed
Georgia	1915	1	$5,000		5	$5,000
Idaho	1907	1–3	$ 4,000–$10,000	1907	1½–15	$ 500–$ 2,000
Illinois	1895	1–2	$20,000	1895	2 –10	$ 500–$ 2,000
Indiana	1913	1–3	$ 2,000–$10,000	1913	1½–15	$100
Iowa			Not Taxed	1896	5	$1,000
Kansas			Not Taxed	1909	3–15	$ 1,000–$5,000
Kentucky			Not Taxed	1906	5	$500
Louisiana	1904	2	$10,000	1909	5	Nothing
Maine	1911	1–2	$10,000	1893	4 – 7	$500
Maryland			Not Taxed	1845	5	$500
Massachusetts	1907	1–4	$10,000	1891	1 – 8	$1,000
Michigan	1899	1	$ 2,000–$ 5,000	1899	5	$100
Minnesota	1905	1–4½	$3,000	1897	3 –15	$ 100–$ 1,000
Mississippi			Not Taxed			Not Taxed
Missouri			Not Taxed	1899	5	Nothing
Montana	1897	1	$7,500	1897	5	$500
Nebraska	1901	1	$10,000	1901	2 – 6	$ 500–$ 2,000
Nevada	1915	1– 5	$10,000–$20,000	1915	2 –25	0–$10,000
New Hampshire			Not Taxed	1905	5	Nothing
New Jersey	1914	1 –4	$5,000	1892	5	$500
New Mexico			Not Taxed			Not Taxed
New York	1891	1–4	$5,000	1885	5 – 8	$1,000
North Carolina	1897	¾	$2,000	1897	1½–15	$2,000
North Dakota	1913	1–3	$ 500–$20,000	1903	3 –15	Nothing
Ohio			Not Taxed	1893	5	$500
Oklahoma	1908	1–4	$ 5,000–$25,000	1908	5 –10	$2,500
Oregon	1903	1	$5,000	1903	2 – 6	$ 500–$ 2,000
Pennsylvania			Not Taxed	1826	5	$250
Rhode Island	1916	½–3	$25,000	1916	½– 8	$1,000
South Carolina			Not Taxed			Not Taxed
South Dakota	1905	1–4½	$ 3,000–$10,000	1905	3 –15	$ 100–$ 1,000
Tennessee	1909	1–1¼	$5,000	1891	5	$250
Texas			Not Taxed	1907	2 –12	$ 500–$ 2,000
Utah	1901	3–5	$10,000	1901	3 – 5	$10,000
Vermont			Not Taxed	1896	5	Nothing
Virginia			Not Taxed	1896	5	Nothing
Washington	1901	1	$10,000	1901	3 –12	Nothing
West Virginia	1907	1–3	$10,000–$15,000	1887	3 –15	Nothing
Wisconsin	1903	1–3	$ 2,000–$10,000	1903	1½–15	$100–$500
Wyoming	1903	2	$10,000–$25,000	1903	5	$500

TAX LIMIT LAWS

The ever-growing tax rate has, of late years, become a matter of grave concern to real estate owners of the city, whether manufacturers, business companies or home owners, or tenants contributing indirectly to the tax burden. The present combined rate of City, School and County is not much under 2¼ per cent, which in turn is not much less than the tax that the "single-taxer" would advocate levying on land values. "Is there any limit to the future tax rate?" asks the taxpayer.

The practice of fixing by law a maximum tax rate beyond which it shall be prohibited to go without authorization at the polls, is not new in this country. Several states, for example, Ohio and Colorado, now have tax limit laws. Of the same general nature are the quite common limitations upon the bonding power of local government; also the maximum levy for specific purposes, for example the 6-mill school tax, the

poor tax, etc. Just as it may be said that the citizens of a community deserve no better administration than they elect at the polls, so it may be said that, within limits, the taxpayers deserve no greater service than they are willing to pay for, assuming that they get good value for their money. A well-conducted business puts a limit on its expense account and its improvement account; it considers whether it can afford this or that service, or improvement (unless the improvement is to be self-sustaining), and if it cannot afford all, it adopts the most important and postpones the others until it can afford them. If the owners or stockholders are willing, by vote, to authorize an extraordinary expenditure after all the facts are placed before them, that is their right.

The City tax rate this year is 12.6 mills, the School tax 6 mills, and the County tax in the City 3¼ mills (in 1915, 2¼ mills.) While the application to administrative matters of the efficiency common among large business organizations would doubtless reduce these rates, yet it should be understood that the relatively large County rate is due largely to mistakes in the past, such for instance as the issuing of long term bonds for the construction of roads with only a few years of life, and, to some extent apparently, the use of "bond money" in some cases instead of "tax money" for the reconstruction or repair of the same roads.

While no criticism of the Board of Education is here intended, and while it is recognized that a relatively large expenditure is necessary in the reconstruction period in the years following what was, in most cases, gross mal-administration under the old regime, yet attention should be called to the fact that the City of Pittsburgh is now collecting annually about one-half as much for educational purposes as for all other activities combined. Perhaps the taxpayers are willing to "slow up" a little now on the construction schedule.

As an incidental advantage of tax limit laws, it has been suggested that if the attention of the voter be directed more frequently to the relation between administrative economy and the tax rate, he as a taxpayer will become more interested in efficient administration and more willing to devote some of his time to assist in the solution of municipal problems and in constructive criticism, instead of wasting time in vain regrets and useless denunciation "after the fact," when it is too late.

In an article entitled "Tax Limit Laws," by A. B. Peckinbaugh, State Tax Commissioner of Ohio, in Volume IX of the annual conference of the National Tax Association, 1915, a general history is given of the operation of the law in Ohio. It seems that the effect of the law was to lower materially the annual percentage of increase in taxes in cities. It is suggested in this article that tax limit laws should contain a provision that the amount levied shall not, subject to the fixed limit, exceed the amount of the preceding year plus a fixed percentage, except for emergencies and for payment of the public debt; and that the tax limits fixed shall vary according to the varying conditions in the different taxing districts. In Colorado some attempt at classifying the districts, with varying limits, seems to have been made. This necessity for variation is brought out also in the Report of the Special Tax Commission of the City of Cleveland, 1915, page 25, in an article entitled "Taxation in Ohio."

Your Committee recommends that, for the present, no attempt be made to secure the passage of tax limit laws in Pennsylvania, but that the experience of other states, counties and cities operating under such laws be carefully watched as a guide for possible future action. While the principle of tax limit laws seems, at first glance, to be sound in theory, yet the possibility of postponement of important public undertakings, of embarrassment to a progressive administration, and of shirking of responsibilities by those elected to assume them, makes it inadvisable to enact such laws until there is available a broader "experience table" upon which to base action.

APPENDIX A

A STATE INCOME TAX

That the "ability to pay" theory of taxation more nearly satisfies the requirements of social and fiscal justice than any other theory is now widely recognized.

Adam Smith, the father of political economy, in his "Wealth of Nations," laid down as the first canon of taxation the principle that the "subjects of every state ought to contribute towards the support of government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." In the practical workings of this principle income or profit rather than property has always received wide recognition as the proper basis or measure of the citizen's ability to contribute to the support of government.

The tax system of nearly every civilized country to-day includes an income tax. From England where this tax has been in existence, at least at intervals, for a century, it has spread throughout Europe, to the colonies of these countries, and to the United States. It has become a fixture in the fiscal system of the Federal Government and in recent years several states have adopted it in one form or another. The income tax, however, is not recent or new in this country. The revenue difficulties of the Civil War led Congress to pass a law in 1862 taxing incomes from all sources above $600 at the rate of three per cent. With various changes, this tax remained in force until 1872. In 1894 the second Federal income tax was passed, but this law was declared unconstitutional. Finally the Sixteenth Amendment to the Constitution was ratified and the present Federal income tax was enacted. It seems improbable that this form of Federal tax will ever be discontinued.

In point of time, however, the utilization of the income tax by state governments antedates its use by the Federal Government. As early as 1634 in the colony of Massachusetts Bay a faculty or ability to pay tax was assessed upon each man "according to his estate and with consideration of all others his abilityes whatsoever."[1]

The principle of ability to pay thus laid down was adopted by other colonies in the seventeenth century, and the custom of assessing profits spread in the eighteenth century to the middle and southern colonies. Pennsylvania passed a law in 1782, imposing a poll tax on freemen, and providing further that "all offices and posts of profit, trade, occupations and professions (that of ministers of the gospel of all denominations and schoolmasters only excepted)[2] shall be rated at the discretion of the township, ward or district assessors, and two assistant freeholders of the proper township, ward or district having due regard to the profits arising from them."[3] These faculty taxes were really classified property taxes in which different employments and classes were rated at fixed amounts and bore very little relation to actual income. They became grievous and unequal and in time fell into disuse.[4]

In the nineteenth century, however, many of the states adopted true income taxes. Seligman divides the history of state income taxation into four periods: first, the survival and development of the colonial faculty tax; second, the resort to income taxes as a result of the fiscal difficulties of the early forties; third, the utilization of the income tax especially in the South during the Civil War; and, fourth, the recent movement. Of these early state income taxes it suffices to say that they were crude, amounting in the southern states at least to little more than a system of license taxes. Even in the Civil War period, a general income tax was effective in only a few cases, and after the war enthusiasm

(1) Seligman: The Income Tax, page 368.
(2) Later, mechanics and manufacturers were exempted.
(3) Laws of the Commonwealth of Pennsylvania (Dallas, II, p. 8).
(4) Seligman: The Income Tax, p. 384.

had subsided the tax, because of poor administration and small yield, became a farce and generally was allowed to lapse.

In Pennsylvania, the law of 1782 with various modifications survived for a time, but it was not enforced and yielded no substantial revenue. The distribution of the surplus of the Federal Government to the various states in 1836 and the resulting period of reckless expenditures, which culminated in the panic of 1837 left Pennsylvania in common with many other states in financial difficulties. In this emergency Pennsylvania in 1840 partly resuscitated the old colonial faculty tax. The new law imposed a tax of one per cent on all salaries, and one mill in each dollar received from every trade, occupation or profession not already taxed by the commonwealth.[1] This law was changed from time to time, but the yield was insignificant, and in 1871 the law was repealed.

In the early nineties and notably after the Federal income tax of 1894 was declared unconstitutional some of the southern states attempted to revive the old Civil War income tax, but with comparatively meager results. Professor Seligman, recognized as one of the foremost authorities on taxation in this country, in his *Income Tax* published in 1911, concludes: "A state income tax, therefore, would work just as badly as, and in our opinion more badly than, the present personal property tax. The real difficulty in the one case as in the other is not with administrative methods, but with the inherent impossibility of localizing personalty or income * * * . Whatever may be the future of tax reform in the American commonwealth, it is not likely that an income tax will be one of its permanent features."[2] Since publishing this treatise, however, Dr. Seligman has assented to the majority report of the Committee on Taxation of the City of New York (1916) recommending a state income tax, or if that be not feasible, an abilities tax composed of a habitation tax, an occupation tax and a salaries tax for the City of New York. The New York Committee recognized that either plan would "require the abolition or superseding of the personal property tax as it exists at present as a part of the general property tax;—a result which this Committee would regard as in every way highly desirable."[3]

Recent favorable experiences with a state income tax, notably that of Wisconsin, though coexistent with a Federal income tax, have thrown a new light upon the rather forbidding background of state income taxes in earlier periods. Among the various forms of progressive legislation enacted in Wisconsin in recent years, none, perhaps, has attracted more attention and interest than the state income tax system adopted in 1911. The enactment of a state income tax in that state and its admittedly successful administration has encouraged other states to pass similar legislation, generally to escape the iniquities and inequalities of the general property tax. Massachusetts, after more than a decade of agitation departed from the policy of a general property tax from which she had raised the bulk of her revenues for three centuries by adopting on May 26, 1916, a state income tax. In Connecticut and West Virginia, laws have recently been passed providing for the taxation of the incomes of corporations, and other commonwealths have under consideration the adoption of a state income tax. As Wisconsin is the only state in which an income tax has been in successful operation for a period of years, her experience may be briefly recited.[4]

The Wisconsin Income Tax

The Wisconsin income tax resulted from "the widespread disatisfaction with the general property tax as applied to the taxation of personal property. Moneys, credits and similar intangibles—although they

(1) Laws of 1840, Act No. 232, Sec. 2.
(2) Seligman: The Income Tax, p. 428.

(3) Final report of the Committee on Taxation of the City of New York (1916), p. 15.
(4) Based on 1912 and 1914 reports of the Wisconsin Tax Commission.

indicate unusual tax-paying ability on the part of their owners—were most unequally and inequitably taxed. With other personal property, such as household furniture, the difficulty and cost of accurate assessment were out of all proportion to the taxes collected thereon. The income tax was designed to replace these taxes. Moreover, the property tax in general had come to be largely a tax *in rem* falling on property without reference to the wealth or ability of its owner, and taking no cognizance of whether it was owned free or heavily incumbered.

> "In the broader view, therefore, the income tax was designed to give larger place in the revenue system to taxes based on ability to pay; and there was no doubt that most of its sponsers hoped and expected that in time it would prove practical and desirable to replace the entire personal property tax with the income tax. This feature of the law is well described by Chief Justice Winslow, speaking for the court, in the case *State ex rel Bolens vs. Frear*, 148 Wis., 505. By the present law it is quite clear that personal property taxation for all practical purposes becomes a thing of the past. The specific exemptions of all money and credits and the great bulk of stocks and bonds, as well as all farm machinery, tools, wearing apparel, and household furniture in actual use, regardless of value, goes far to eliminate taxation of personal property; while the provision that he who pays personal property taxes may have the amount so paid credited on his income tax for the year seems to put an end to any effective taxation of personal property. That taxation of such property has proven a practical failure will be admitted by all who have given any attention to the subject. Doubtless this was one of the main arguments in the legislative mind for the passage of the present act. By this act the legislature has, in substance, declared that the state's system of taxation shall be changed from a system of uniform taxation of property (which so far as personal property is concerned has proven a failure) to a system which shall be a combination of two ideas, namely, taxation of persons progressively, according to ability to pay, and taxation of real property uniformly, according to value."

Main Features

The following summary will serve to indicate the salient features of the Wisconsin income tax:

1. It was designed as a substitute for the personal property tax, the inequalities and injustice of which had long been felt in that state as in every state where the old general property tax obtains.

2. It is not an additional tax, but a substitute for the tax on personal property, particularly money and credits. With the passage of the income tax law, the general laws were amended so as to exempt from taxation: moneys, stocks, and bonds, all debts due from solvent debtors whether on account, note, contract, bond, mortgage, or other security—in short intangible personalty is exempt. In order that the owner of tangible personalty shall not be put at a disadvantage as compared with the owner of intangibles, the law provides that a person paying any personal property tax may subtract such payments from his income tax.

3. The tax is confined practically to income derived from property located and business transacted within the state.

All income derived from persons, property and business having an actual or constructive situs in the state, or, more specifically all income other than that exempted by statute, which residents of the state receive either from within or without the state, is taxable.

In determining taxable income, the general rule is followed that income from property which is taxable at its situs follows the situs of the property, and income derived from property taxable at the domicile of the owner follows the residence of the recipient of the income. Thus the resident is not taxable on income from rents or royalties arising in another state, but he is taxable on that derived from securities, regard-

less of their origin; while rents and royalties arising in Wisconsin are taxable to non-residents.

4. It is not a state tax, though administered by state officials. Of the total tax, 70 per cent goes to the town, city or villages in which it is collected, 20 per cent to the county, and 10 per cent to the state. Out of this 10 per cent, the state has been able to pay all the expenses of administration.

5. The tax is progressive, but the rates imposed differ materially as between individuals and corporations.

The rate upon individuals and co-partnerships is one per cent on the first $1,000 of taxable income; one and one-quarter per cent on the second $1,000, and rises gradually to six per cent on income of $20,000 and upward. Exemptions are made to an individual income up to $800, to husband and wife, $1200, to each child under eighteen, $200, etc. Deductions are allowed from gross income of necessary expenses, salaries or wages of employes reported, uninsured losses, etc., etc.

Originally the rate upon corporations was determined by the relation between the taxable income and the assessed value of the property used in acquiring such income. The rates now imposed are 2 per cent on the first $1,000 of taxable income; 2½ per cent on the second $1,000, and so on up to 6 per cent on the seventh $1,000 and all taxable income in excess of $7,000.

6. The Wisconsin income tax follows the Federal income tax in the extensive application of the principle, the wisdom of which is questionable, of collection at source. Thus, corporations pay on their total profits, and individual stockholders are not taxed on their dividends. So, too, interest paid upon bonds of corporations subject to the income tax is, for practical purposes, taxed directly to the corporation and exempted to the individual bondholder. In 1912 the Tax Commission estimated that 68 per cent of the entire tax would be collected from corporations, i. e., at the source, and about 7 per cent from firms and co-partnerships, making about three-fourths of the income tax collected at the source where earnings originated.

Much use has been made, too, of the principle of information at the source. When the forms for income tax returns are given out, they are accompanied by blanks upon which the taxpayer is required to fill out the names and addresses of all persons to whom wages or salaries of $700 or more have been paid during the year and the amounts paid. Corporations report on an additional blank the names and addresses of stockholders to whom dividends have been paid with the amount so paid. Claims for interest paid on indebtedness must be accompanied by a statement of the names and addresses of persons to whom such interest was paid.

The information thus obtained by the Tax Commission is classified and furnished to the income tax assessors of the respective districts where the recipients of the wages or dividends reside.

Regarding the inquisitorial features of the tax, of which much has been said, the Report of the Wisconsin Tax Commission for 1912 (p. 43) says: "Assessors and tax officials are punishable by drastic penalties for revealing information either directly or indirectly and not a single complaint of violation of confidence has been made to the Tax Commission. Furthermore, the assessment and tax rolls, which are the only records made public in this connection, reveal nothing not already known to credit agencies and the business world generally. A man's taxable income and the tax thereon are matters of public record, but that is all. Nothing is known of his exemptions or of his non-taxable income, or of his income derived from business transacted without the state, or of his income derived from stocks and bonds taxed directly to the corporations from which received. No tax measured by ability to pay can be administered without asking searching questions. The more thoroughly these questions are asked the more certain honest people can be that the tax dodgers are paying their fair share. If taxation is confined to visible things alone, the assessor can get along without asking questions; but such procedure would exempt from taxation many of the wealthiest and ablest members of the community. When an assessor is trying to ascertain a man's income or the value of his personal property, he must ask either the man himself or the man's neighbors. The second method is obnoxious. The open way is to put the taxpayer himself on record. This procedure is the honest man's only protection against the tax dodger."

7. It was realized that the failure of state income taxes in the past was due primarily to lax and inefficient administration on the part of local officials, and to avoid this defect the administration of the income tax law is centralized in the hands of the permanent State Tax Commission. The assessors of income are appointed after civil service examinations and are independent of local influences which so generally have resulted in the failure of the general property tax.

8. Returns of income by individuals and firms are made to the income tax assessors, who make the assessment upon the basis of these returns. If the assessor has reason to question the accuracy of the return he can increase the amount upon giving written notice to the taxpayer. An appeal lies from the decision of the assessor to a board of review composed of three persons for each tax district appointed by the Tax Commission; and then from the board of review to the Tax Commission.

Cost of Administration

One of the noteworthy features of the Wisconsin income tax is the very low cost of administering it. The first year it cost 1.31 per cent, and the second year 1.11 per cent. This may be compared with the cost to the Federal Government of collecting customs duties which was 3.47 per cent, or the cost of collecting internal revenue duties, the cheapest kind of taxes collected in the United States, which was 1.57 per cent.[1]

Delinquency

The first three years experience with the income tax in Wisconsin showed that from 2 to 4 per cent of the tax went delinquent. Of the total amount of delinquency it was estimated that about 50 per cent was collectible, 25 per cent non-collectible, and 25 per cent doubtful. In other words, with efficient and vigorous collection on the part of the local treasurers only about 1-1/3 per cent should be finally lost. The 1914 report of the Tax Commission says: "With little effort on the part of local treasurers the proportion of personal property and income taxes remaining unpaid could be brought well down below one per cent."[2]

Success

As to the success of this state income tax the Wisconsin Tax Commission after three yeares had this to say: "In theory the income tax was generally admitted to be the ideal substitute for the tax on moneys, credits, and perhaps all forms of personal property. But experts doubted whether it could be made to work as a state tax, and in particular they doubted whether it would yield reasonably large revenues, whether it would not prove exceedingly expensive to administer, and whether the average taxpayer would cooperate with the authorities in returning sufficiently accurate and truthful reports upon which to base a fair and adequate assessment. Three assessments have now been made under the income tax law and data has been accumulated sufficient to answer with some certainty the doubts and questions properly raised by the experiment with the income tax."[3]

The Tax Commission goes on to relate in detail the results accomplished which may be summarized as follows:

(1) Report of the Wisconsin Tax Commission (1914), p. 126.
(2) Ibid., p. 116.
(3) Ibid., p. 91.

1. The income tax has yielded a very substantial revenue, and one well in excess of that received from the personal property tax. Thus, in 1912 the tax amounted to $3,482,145; in 1913 to $4,084,497; and in 1914 to $4,140,571. These sums, however, do not represent actual cash collections because the Wisconsin law allows the man paying a personal property tax to offset it against his income tax. Collections suffered owing to the inevitable litigation accompanying a new and novel tax law. Furthermore, the operation of the income tax machinery resulted in a striking increase in the assessment of personal property so that the real yield was in fact greater than is indicated by the cash collection. Had personal property continued to be assessed as it was prior to the passage of the income tax law the total cash payment of income taxes would have been considerably larger.

2. From an administrative standpoint it has proved one of the cheapest taxes known.

3. It has reached large classes of property and groups of individuals that formerly under the personal property tax escaped; and it has reached these groups in proportion to their ability to pay.

The larger part of the income tax is assessed to corporations—65.6 per cent in 1914 as against 34.4 per cent assessed to individuals and firms. The average rate paid by corporations in that year was 5.21 per cent; by firms and individuals 1.9 per cent. "The tax is then largely a tax upon successful business concerns. New enterprises which have not reached the profit-paying stage and established concerns which have had a bad year pay no tax."

The income tax is primarily an urban tax. Milwaukee county, for instance, contains only 8.56 per cent of the population of the state, but in 1914 over 42 per cent of the total income and 47 per cent of the total income tax were assessed in that county. On the other hand the fifty-four rural counties containing nearly one-half of the population paid less than one-fifth of the tax. The total income tax assessed in 1914 amounted to $1.77 per capita, but the per capita tax in Milwaukee was $4.50, and in the rural counties only 68 cents. Again, in Milwaukee county 4.69 per cent of the population was subject to the tax on individuals and firms, while in the rural districts only 1.71 per cent of the population was assessed. "In short, a smaller proportion of the people pay, and they pay lower average rates on smaller average incomes in the country than in the city." The income tax is drawn principally from the well-to-do and more prosperous classes.

The following table taken from the 1914 report of the Wisconsin Tax Commission shows the industrial classes from which the income tax levied upon individuals and firms was drawn:

	Number assessed for income tax	Average tax per taxpayer	Per Cent. of total income tax	Per Cent. of total number assessed	Per Cent. of total taxable income
		Dollars	Per Cent.	Per Cent.	Per Cent.
Bankers and capitalists	982	$116.33	8.00	1.61	4.76
Estates, guardianships, etc	977	87.42	5.98	1.60	3.76
Lumbermen	346	81.27	1.97	.57	1.32
Manufacturers	2920	78.26	16.01	4.80	11.36
Lawyers	1202	59.26	5.02	1.97	4.18
Miners	80	38.89	0.22	.13	.18
Retired	3263	37.24	8.51	5.36	6.93
Merchants and Jobbers	11838	24.13	20.01	19.45	23.55
Physicians and surgeons	1642	22.78	2.62	2.70	3.30
Brokers, real estate men, etc	5338	20.86	7.80	8.77	8.72
Public officials	555	16.05	0.62	.91	.93
Mechanics and tradesmen	5768	12.63	5.10	9.48	6.17
Professions—miscellaneous	2359	12.30	2.03	3.88	2.96
Professors and teachers	2372	10.40	1.73	3.90	2.08
State and public employees	1203	8.15	0.69	1.98	.99
Public service employees	2870	7.96	1.60	4.72	2.07
Farmers	7225	7.66	3.87	11.87	6.40
Bookkeepers, stenographers, etc	4148	4.96	1.44	6.82	2.54
Laborers	882	2.91	0.18	1.45	.34
Other occupations	4336	20.25	6.15	7.12	6.78
Unknown	554	11.71	0.45	.91	.68
All occupations	60860	23.46	100.00	100.00	100.00

Recognizing the difficulties of successfully classifying occupational statistics, the Tax Commission says:

"Certain important conclusions may, however, be drawn with safety. For instance, the census statistics make it plain that there are not less than 165,000 farmers in the state, from which it follows that certainly less than five per cent of the farmers of the state are subject to the income tax. Similarly, it is certain that considerably less than one per cent, and probably less than one-half of one per cent of the laborers of the state are assessed for income taxes. Of the bookkeepers, stenographers and clerks, the statistics indicate that something less than six per cent were assessed for income tax in 1914.

"On the other hand, it is practically certain that more than fifty per cent of the bankers and capitalists, lawyers and physicians and surgeons were subject to the individual income tax, to say nothing of the amounts which these persons pay indirectly through the tax corporations. It is interesting to note that probably not less than 20 per cent of the public officials, public employees and public laborers of the state were assessed for income tax. The federal census for 1910 shows 7,338 employees in the public service, not elsewhere classified, including guards, watchmen, doorkeepers, firemen and laborers. Table IV, shows that 1,758 public officials and employees were assessed for income tax in 1914, or somewhere between one-quarter and one-fifth of the number recorded in the census. There cannot be a very large number of public employees classified elsewhere than in this group.

"Perhaps as good a measure of the relative burden of the tax as could be secured is found in the figures showing the average tax per taxpayer. The various occupations are arranged in the order of the size of this average tax in Table IV. The highest per capita tax, $116.33, is paid by bankers and capitalists; the lowest by laborers $2.91. The tax was evidently highest upon investers and allied classes, those drawing their income largely in the form of interest. Next it touches the extractive and manufacturing industries—lumbering, manufacturing and mining—though it should be remembered that in these classes a relatively large proportion of the tax is offset by the personal property tax. Merchants and jobbers follow closely,

among whom also a large part of the tax is offset by personal property taxes, and thereafter come the professional classes. The lawyers it will be observed are above the other professional classes, standing between manufacturers and miners. The tax on professional classes generally is additional or supplementary. It is not offset by the personal property taxes and no equivalent tax was collected from these classes before the income tax was introduced. The statistics indicate that the income tax is performing exactly the service for which it was introduced—drawing a larger contribution from the investing and professional classes and from those elements of the manufacturing and commercial classes which are unusually prosperous and subject to higher income than personal property taxes.

"Table VII, presents an analysis and classification of corporation income tax. Eighty-five per cent of the tax is assessed upon mercantile and manufacturing concerns and the manufacturing industries are by far the largest contributors. Two-thirds of the tax is assessed to manufacturing concerns. There is no reason why manufacturing concerns should not contribute to the state when they are prosperous and have reached the dividend paying stage. There is every reason why they should contribute. On the other hand, the new and struggling enterprise, the experimental industry, the weak and small producers need and deserve protection; and it would be well in the opinion of the commission if such concerns could be exempted from the personal property tax and not be called upon to contribute to the state until their tax paying ability had been definitely proven. Before the passage of the income tax the personal property tax showed peculiar and unusual weakness in the application to manufacturing concerns. The personal property tax is still defective in this respect. On the other hand, the income tax is an unusually good tax for this class of industrial enterprise. It relieves a manufacturer when he is not making money and asks for a fair contribution when times are good. We believe that the whole personal property tax should be, if possible, repealed, as explained in Chapter II. If this be impracticable, then we believe that the so-called home rule (taxation) amendment should be given careful consideration by the legislature."[1]

(1) Report of the Wisconsin Tax Commission (1914), pp. 107-110.

TABLE VII OF WISCONSIN TAX COMMISSION REPORT, 1914.

Statistics of Income Taxes for Corporations, Classified According to Business in Which Engaged.

Business in Which Engaged	Taxable Income	Tax	Per Cent. of each Group to Total		Average Tax Rate
Total for State:					
Total	$52,191,412	$2,716,657.04	100.00		.05205
Investment and land companies	2,685,429	120,777.91	4.45		.04497
Mercantile	10,746,465	511,885.80	18.84		.04756
Mining	326,880	17,820.47	.66		.05452
Manufacturing—Total	33,030,596	1,807,803.22	66.54	100.00	.05472
(a) Dairy Products	1,825,522	93,500.81		5.17	.05122
(b) Iron and Steel	5,781,365	324,109.36		17.93	.05606
(c) Lumber	3,653,529	195,459.30		10.81	.05350
(d) Malt products	5,153,686	294,960.17		16.31	.05721
(e) Paper and pulp	1,474,597	81,101.79		4.49	.05501
(f) Leather (including shoes)	2,074,462	116,464.09		6.44	.05614
(g) Other	13,067,435	702,307.70		38.85	.05374
Miscellaneous	5,402,042	258,369.64	9.61		.04782
Milwaukee County:					
Total	23,939,134	1,297,417.22	100.00		.05419
Investment and land companies	1,553,871	74,074.74	5.71		.04767
Mercantile	5,131,767	268,533.34	20.69		.05233
Mining	4,367	107.61	.01		.02464
Manufacturers—Total	14,332,606	811,407.54	62.55	100.00	.05662
(a) Dairy products	36,647	1,268.77		6.14	.03464
(b) Iron and steel	3,675,623	209,103.80		25.77	.05689
(c) Lumber	181,368	9,571.29		1.18	.05278
(d) Malt products	3,385,269	200,069.96		24.66	.05914
(e) Paper and pulp	130,598	6,715.88		.83	.05142
(f) Leather (including shoes)	1,386,198	79,962.27		9.85	.05769
(g) Other	5,533,903	304,715.57		37.55	.05506
Miscellaneous	2,916,523	142,293.99	11.04		.04913
All Counties except Milwaukee:					
Total	28,252,278	1,419,239.82	100.00		.05023
Investment and land companies	1,131,558	46,703.17	3.29		.04128
Mercantile	5,614,698	243,352.46	17.14		.04334
Mining	322,513	17,712.86	1.25		.05492
Manufacturing—Total	18,697,990	996,395.68	70.21	100.00	.05330
(a) Dairy products	1,788,875	92,232.94		9.26	.05156
(b) Iron and steel	2,105,742	115,005.56		11.54	.05462
(c) Lumber	3,472,161	185,888.01		18.65	.05353
(d) Malt products	1,765,417	94,790.21		9.52	.05370
(e) Paper and pulp	1,343,999	74,385.91		7.47	.05536
(f) Leather (including shoes)	688,264	36,501.82		3.66	.05303
(g) Other	7,533,532	397,592.13		39.90	.05277
Miscellaneous	2,485,519	115,075.65	8.11		.04630

The Proposed Income Tax in New York

The Joint Legislative Committee on Taxation of the State of New York in its report to the legislature, February 14, 1916, in which an income tax is recommended for that state, estimates that under the income tax proposed 72,345 people having incomes less than $3,000 would pay $287,587, while 82 people having the larger incomes in the state would pay $1,809,649. "The result" says the report "is almost startling, and yet the 82 would be paying only their share. But neither for the wealthy man nor for the poor man would the burden be a heavy one, for a low rate running from one-half of one per cent to a maximum of two per cent on individuals would satisfy all our needs. Under this rate with an exemption of $1,500 to a single man and of $2,000 to the average family, the family man with an income of $3,000 would pay but $5 per annum, while the man with an income of $100,000 would pay somewhat less than $2,000 per annum. Could either one of them fairly complain? Nor, under such circumstances, would there be any real incentive to escape.

"No man will willingly pay a two per cent tax on capital value, which amounts to taking from 30 to 50 per cent of his income. Experience has shown, however, that he will pay so reasonable an amount as 2 per cent on income, particularly when he knows that all who should are contributing their share. Under our present system the conscientious taxpayer is not only asked to pay a confiscatory rate, but he is asked to do so with the full knowledge that nearly everyone in the community is dodging the tax in one way or another. Most men, we believe, are willing to pay a fair and reasonable tax, but there is a point in taxation where it is dangerous to test human nature too far, and where the honesty of the average citizen is forced to give way to the instinct of self-protection.

"Turning now to general business corporations and to individuals and partnerships engaged in business, we find that in so far as these classes are concerned, the personal property tax is illogical, burdensome, unequal, and therefore inequitable; that the great majority of business houses escape taxation, but that those that do pay are taxed at a rate altogether too high, a fact which puts them at an unfair disadvantage as compared with their competitors; that, in brief, the personal property tax is, in the main, a failure, and to the extent that it does succeed, grossly unjust. We find, moreover, that the assessment and valuation of property gives rise to all manner of difficulties, particularly in the case of corporations where it is necessary to include the franchise value as part of the gross assets or of the capital stock value; and that ultimately the assessors find that the fairest way to reach the capital value of the property is through the capitalization of net earnings. Few, if any, of these difficulties arise when individuals engaged in business and general business corporations are taxed on a net earnings basis * * * . Property is not a fair test of ability to pay, and this is particularly true in the case of merchants and manufacturers. We again desire to emphasize that the amount of stock of goods on hand or the capital value of the property does not adequately measure earning capacity for the purpose of taxation; and that we know of no fairer way of determining what should be the proper contribution of an individual corporation than by considering its net earnings. This is all the more true when we consider that it takes, in some instances, several years for a business to develop to the point that it can pay a return upon the original investment. It is neither good policy nor sound finance to overtax an infant industry, nor, for that matter, even an established industry in bad times. Taxes are paid out of income, and one of the great advantages of an income tax as a business tax is that it levies tribute only when there is an income from which to pay it. That the income tax is the best way of taxing both individuals engaged in business and general business corporations was the opinion of practically every business man that appeared before our Committee, and of the tax committee of such representative commercial bodies as the Chamber of Commerce of the City of Rochester, of the Merchants Association of the City of New York, and the Chamber of Commerce of the City of New York * * *.

"To equalize the burden is the principal function for which this Committee was appointed. Certain classes of property are to-day paying too much, others too little. No equality can exist until those paying too little are compelled to pay their share. It seems to us that the income tax meets these requirements."[1]

The Joint Legislative Committee on Taxation of New York secured various estimates of the possible yield of an income tax in that state tending to indicate that under the proposed scheme the tax on corporations would yield in 1916 at a 1 per cent rate about $9,000,000; at 2 per cent, $18,000,000, and at 3 per cent $27,000,000; in 1917, at 1 per cent about $9,000,000, at 2 per cent, $19,000,000, and at 3 per cent

[1] Joint Legislative Committee on Taxation of the State of New York (1916), pp. 200-203.

$29,000,000. The yield from the individual income tax, which provides for exemption to individuals of $1,500, to husband and wife, $1,800, with $100 additional for each child under eighteen, but with a limit of $2,000 to a family, was estimated at $18,000,000 in 1916 and $19,000,000 in 1917. Of the revenue collected under the proposed income tax, 20 per cent was to be retained by the state and the rest was to be distributed to the counties in proportion to the aggregate amount of assessment for each county on the basis of the last preceding state equalization of assessment. The county treasurer was then to apportion the amount so received among the several towns and cities within the county in proportion to their valuations as equalized by the board of supervisors at its last meeting. Deducting from these amounts the revenue derived from corporations that would be subject to the income tax and relieved from payment under existing statutes, the state would retain about $2,000,000, plus the cost of administration, and the balance, amounting in 1917 to over $44,000,000 would be returned to the localities. After allowing for about $6,000,000 at present derived from the personal property tax, there would still be "a net gain of $38,000,000 to be distributed to the localities with a view to equalizing the present burden of taxation by relieving real estate and such other forms of wealth as are now contributing more than their share."

For this suggested method of distribution according to assessed values in each county, the Joint Legislative Committee claims these advantages: [1]

"1. It will avoid the difficulty which would arise if each locality were permitted to retain the tax paid by residents of that district. Under this latter method some districts, where many rich men have established a residence, or where many prosperous corporations are located, would have more revenue than they could use, while others, whose inhabitants enjoy smaller incomes, would receive little or no revenue.

2. The new method will tend to encourage the raising of real estate assessments to a point approaching true value.

3. It will meet the criticism of an income tax to the effect that, although the rate is usually low at the start, there is a constant temptation to raise it in order to obtain more revenue. Under the proposed system there will be no temptation on the part of the Legislature to raise the rate, inasmuch as the State will not profit, while it is hardly probable that all of the localities, or even a majority of them, will unite at one time in demanding an increase, or at least such a situation will not occur unless the increase is fully warranted by the general circumstances."

The New York Committee meets the objection that the income tax is inquisitorial by noting that the bill submitted makes it possible for the taxpayer to "file with the State authorities a return which is, for all practical purposes, a duplicate of the information already furnished to the Federal government, together with such additional information as may be necessary for State purposes. We hear little or no complaint to-day as to the inquisitorial features of the Federal income tax. People have become accustomed to it. Nor do we feel that there will be any great reluctance to disclose to the State authorities information already furnished by the Federal government, particularly under a law which provides severe penalties for the disclosure of any information by the public officers."

Again, the Joint Committee says of the objection to a state income tax on the ground that there is already a Federal income tax: "There is no question that, in addition to the Federal income tax, personal property must contribute its quota to the support of the state government. Is it better to impose a 2 per cent property tax on capital value, or to impose a 2 per cent tax on net income? We can hardly assume that the State will continue to allow the personal property tax to remain on

[1] Ibid., p. 204.

the statute books and to permit its evasion. And so the choice does not lie between no tax and some new form of taxation such as the income tax, but between the continuance of the present hopeless system, and some better and more equitable way of raising revenue."

Finally, to the objection that the income tax will not work in practice, the Committee points to the successful experience of the Federal income tax. "This law is of immense help to any state desiring to impose an income tax, and for two reasons. In the first place, many people are already accustomed to it, they understand its workings and will not resist its enforcement; and in the second place, the fact that the Federal government requires a return, and has the machinery to check up that return in a strictly accurate manner, makes the evasion of the State income tax a matter of no little difficulty and danger. Insofar as corporations are concerned, the Federal law to-day permits a state to examine the returns. A similar provision insofar as individuals are concerned, could probably be obtained from the Federal government. But in the meanwhile it seems to us highly doubtful whether any individual having already filed a correct statement with the Federal government would be foolhardy enough to file an incorrect duplicate with the State authorities.

> "The income tax will work in practice. It has been successfully administered in practically every European country for a great number of years. The Federal income tax works, and the Wisconsin experiment has conclusively demonstrated that with a good administration state income tax does work. There seems to be, moreover, a strong movement in favor of such a tax throughout the country * * * . Practically every witness that appeared before our Committee—and the list included representatives of leading commercial and business organizations, as well as tax experts, business men and individuals from many walks of life—advocated the abolition of the personal property tax and the substitution therefor of the income tax."[1]

The Massachusetts Income Tax

In 1916 Massachusetts enacted an income tax law which in several respects is noteworthy. For nearly three hundred years Massachusetts raised the bulk of her revenues from the general property tax. From time to time as economic conditions and fiscal necessities changed, other taxes including corporation taxes and taxes upon inheritances were introduced, but chief reliance for public revenues was placed upon "a tax levied uniformly upon real and personal property by the several cities and towns at whatever rates might be needed to meet local expenses." In common with all other states where the general property tax prevailed, Massachusetts found in the course of time that this form of tax worked badly. Various commissions brought in schemes of reform, but apathy or constitutional obstacles obstructed the path to real reform of the tax system. There, as elsewhere, one of the worst features of the system was the taxation of intangible property, and in 1907 the so-called "three-mill tax," a flat tax of 3 mills on the assessed valuation of money, credits and securities, was proposed by a special tax commission, but the plan encountered constitutional difficulties and came to nothing.

In 1911 Governor Foss broached the subject of a state income tax as a substitute, partial or complete, for the personal property tax. Differences regarding the form of an amendment to the state constitution permitting the establishment of a uniform income tax delayed for several years the adoption of the necessary amendment, but in 1915 it was submitted to the voters and ratified by an overwhelming majority.

The Massachusetts income tax is narrower in scope than the Federal income tax, which applies to incomes from nearly all sources, and somewhat narrower than the Wisconsin income tax which reaches most kinds of income but excludes dividends from certain classes of corporations. The problem in that state was to substitute an income tax for those parts of the existing system of property taxation as had proved unsatisfactory. "There was no popular demand for a new method of taxing real estate or tangible personal property," says Professor Bullock, "and the Legislature acted wisely, therefore, in making the income tax merely a logical complement to a system of property taxes upon tangible property, real and personal. The result is a perfectly logical adjustment by which tangible things like real estate, machinery, merchandise, and livestock are assessed locally upon their capital value, while intangibles are assessed by the state upon their annual income."

The Massachusetts income tax is notable for a number of variations from both the Wisconsin and the Federal income tax plans. One of the most striking of these variations is a flat rate instead of a graduated rate of taxation, the purpose of the latter being to shift a large proportion of the tax burden upon the well-to-do.

The law definitely abandons "collection at the source" and substitutes for it the principle of "information at the source." It requires employers to furnish the names and addresses of all regular employees receiving salary or other compensation above $1,800 a year. Every corporation, partnership, association, or trust having transferable shares not exempt from taxation must file the names and addresses of its Massachusetts shareholders, and must also report the names and addresses of Massachusetts recipients of interest upon its bonds, notes or other evidences of indebtedness except coupons payable to bearer. Upon request by the Tax Commissioner these corporations, etc., must state the amounts of dividends, interest and annuities so paid by them to any person. This plan does away with the necessity of coupon certificates required for collection at the source.

The most important provision of the act is that which abolishes the tax upon intangible property and substitutes a uniform tax of 6 per cent upon the income derived therefrom. "It substitutes a definite and reasonable tax for an uncertain and unequal system, under which many escaped altogether, some compounded with the local authorities for a reasonable rate of taxation, and still others paid one-quarter or one-third of their entire incomes." Another feature of the tax on the income from intangible property is that it applies only to such kinds of intangibles as were subject to taxation under the former law. Thus the income from mortgages upon taxable Massachusetts real estate remains exempt; so too with income from savings bank deposits, tax-exempt state and municipal bonds, dividends on the stock of Massachusetts corporations and national banks, "real estate trusts," and shares of such voluntary associations as hold the shares of Massachusetts corporations, or are conducting their business principally in Massachusetts and are, therefore, already sufficiently taxed. In general, the owner of securities is taxable only upon income derived from sources that were taxable under the old law.

Another important feature of the tax on intangibles is that it provides for a deduction or offset for indebtedness. The taxpayer may deduct such a proportion of the interest paid on his total income from all sources. Besides allowing for this proportional deduction for debts, the law grants an exemption of $300 of income from taxable intangible property to persons whose total income from all sources does not exceed $600 during the year prior to the assessment of the tax.

The new law makes a consistent effort throughout to avoid imposing the tax in any way upon others than inhabitants of Massachusetts, so that non-resident partners in Massachusetts firms, non-resident beneficiaries of Massachusetts trusts, etc., are not subject to this tax. Hitherto the policy in that state has been to tax beneficiaries who reside in the state, no matter where the trustee resides or may have derived his appointment, and also to tax trustees living in the state even though

[1] Ibid., pp. 205-206.

some or all of the beneficiaries reside in other states. Under the new law the taxes levied upon income will be governed by the domicile of the beneficiary and not by that of the trustee. This "will have the effect of making it possible for inhabitants of Massachusetts to act as trustees under many trusts that otherwise would never come to this state."

Besides taxing the income from intangible property, the act imposes a tax of 1½ per cent upon income derived from "professions, employments, trade or business." These classes of income have in theory long been taxable as personal property, but the new law fixes a uniform rate and makes important improvements in the details of the tax. Formerly income from annuity was taxable upon its entire amount; the new law provides an exemption of $300 if the total income of the annuitant is not in excess of $600. The new law carefully defines taxable income: "In effect, the income hereafter subject to taxation will be the net income of the business determined substantially as any good accountant would compute it; and the further provision is made that a taxpayer shall be entitled to deduct from such net income an amount equal to five per cent of the assessed value of the stock in trade and other tangbile property, real and personal, owned by him and used in the business. Thus the new act exempts so much of the taxpayer's income as represents a fair rate of interest upon tangible property for which the business is taxed." The act continues the exemption of $2,000 of professional or business income allowed under the old law; also, a further exemption of $500 for a married person, and $250 for each child under eighteen, or for a parent dependent upon the taxpayer for support, but with a limit of $1,000 for this total additional exemption.

The new law provides, further, for a special tax at the rate of 3 per cent upon the excess of gains over losses resulting from purchases or sales of intangible personal property. It applies to the individual speculator as well as to the banker or broker, but in the case of trustees the gains are determined not annually but at the termination of the trust, or every fifth year if continued over that period. This provision, without which gains from dealings in intangible property would pay 1½ per cent if part of the income of any business instead of 3 per cent, was doubtless due in part to the desire to tax the speculator. But, comments Professor Bullock, "it is also explicable on the ground that intangible property is now exempt from taxation as property, so that persons who deal in it may fairly be required to pay a somewhat heavier rate than persons who deal in merchandise or other taxable tangible property."

Summarizing, the rates of taxation on the several forms of income are as follows:

1. Six per cent on interest and dividends received, except those from securities already tax exempt, with exemption of $300, provided the total income is not in excess of $600.
2. One and one-half per cent upon income from annuities, with $300 exemption.
3. One and one-half per cent on excess over $2,000 of net income from professions, employments, trade and business, with deduction of 5 per cent on the assessed value of the tangible property employed in the business, and allowance for children, dependent parents, etc.
4. Three per cent on excess of gains over losses from purchases and sales of securities and other tangible property.

The existing tax on corporations remains in force. Partnerships are taxed in much the same way as individuals on that portion of their income which goes to partners resident in Massachusetts.

One of the most noteworthy features of the Massachusetts income tax is the means provided for its enforcement and administration. Since the law is to be strictly enforced, it required compulsory returns of taxable income. On or before the first day of March each year inhabitants of Massachusetts must make returns under oath of their income from taxable intangible property, and heavy penalties are provided for

failure to comply with the law. These returns, however, are not to be made to the local assessor but either to the state tax commissioner or to a special income tax assessor appointed to assess incomes in the district where the taxpayer lives. The taxpayer has the option of sending his return to the income tax assessor or to the tax commissioner, so that the details of his affairs shall not become known to his neighbors. The act further provides that neither the tax commissioner nor any other public official shall disclose to any unauthorized person any information contained in any such return other than the name and address of the person filing it.

The administration of the income tax is placed in the hands of a state tax commissioner who is authorized to appoint an income tax deputy to have immediate charge of the assessment of income. He is also authorized to divide the state into income tax districts and to appoint an income tax assessor for each district. Thus, the administration of the law will be localized in some measure, but will retain the principle of responsibility to the single central authority, the state tax commissioner. "Under these provisions," says Professor Bullock, "we may count on intelligent and even-handed enforcement of the law in every town or city in the state, so that when the income tax goes into operation every owner of intangible property will feel assured that all are being treated alike. Under such conditions we may expect that the law will be as fully and as cheerfully complied with as was the income tax act that went into operation in Wisconsin in 1912.

> "The new law is calculated to yield a revenue substantially greater than is now derived from intangible property and taxable incomes, and with the efficient methods of administration that have been provided, there can be little doubt that it will fulfill expectations."

APPENDIX B

THE STATE TAXATION SYSTEM

Historical Sketch of Taxation in Pennsylvania

To understand aright the existing fiscal system of the State and what is involved in the recommendations summarized in earlier sections, and amplified in later sections, of this Report, it is necessary to know something of the evolution of that system.

As early as 1778, while the Revolutionary War was in progress an act was passed to "compel the settlement of the Public Accounts," which provided for the appointment of three "Auditors with full power to collect, audit, liquidate, adjust and settle the accounts of the late Committee of Safety and the Council of Safety of Pennsylvania, who ceased to act in March, 1777, and all others * * * ."

In 1782 an act was approved by the General Assembly entitled "An Act for Methodizing the Department of Accounts of this Commonwealth," which provided for the office of Comptroller General. In 1789 the office of Register General was created to which the Comptroller General was required to submit all adjusted accounts before making final settlement.

In 1809 both the offices of the Register General and Comptroller General were abolished, and the office of Auditor General was created with all the powers previously vested in the Register General. Two years later an act was passed in reference to the adjustment of accounts and related matters and many of its provisions are still in force. In 1869 there was created a Board of Accounts composed of the Auditor

General, the State Treasurer, and the Attorney General to act as a kind of board of tax appeals.

In these early days when the expenses of government were slight, ample revenue was provided by the sales of public lands, dividends paid by corporations in which the State held stock, etc. Bank dividends were taxed in 1814, and collateral inheritance in 1826.

In 1831 an act was passed which laid the foundations for a system of state taxation. It imposed a tax of one mill upon ground rents, money at interest and owing by solvent debtors, mortgages, corporation stocks, public stocks, except those issued by the State, and pleasure carriages. This tax was collected by the county officers for the use of the State. County Commissioners were required to add one mill to the county tax on all real and personal property subject to local taxation, for the use of the State. These taxes were limited to five years, as it was believed that the income from the state public works then in course of construction would defray all expenses of state government. From 1836 to 1840 the Commonwealth received large sums from the Second Bank of the United States which after the expiration of its Federal charter incorporated as a state bank, and from the Federal surplus which was distributed among the states.

The debt arising from the vast system of public works soon outran the revenues therefrom, and new taxes were laid in 1840, including a tax of one mill on the stocks of banks and other institutions declaring a profit; one-half a mill on certain kinds of personal property; a small tax on furniture, pleasure carriages, watches; and a tax on the salaries of State officers. These taxes proved quite inadequate to meet even the interest charges on the public debt, and in 1843 the Commonwealth defaulted in the payment of its interest.

In this emergency the Act of 1844 was passed, and this act forms the basis of our present taxation system. It was very broad in its application, reaching a great variety of subjects of taxation. It created the existing capital stock tax and the tax on personal property. It provided for a state tax on real estate, which was repealed in 1866; and a tax upon horses and cattle for state purposes, repealed in 1873. The tax on furniture, carriages, watches, etc., was repealed in 1887. The tax of 1844 originated the practice of taxing corporations directly through state officers, and personal property through county officers acting as agents of the state.

The Civil War brought greatly increased expenditures and consequently new taxes, including the tax on the net earnings of bankers and brokers (1861); on gross receipts of transportation companies (1864); on the mining of coal (1867); on corporate loans in a new form (1864). After the close of the war many of these taxes were abolished.

With the continued development of the State increased revenues again became necessary. In 1877 the tax on gross receipts of transportation companies was revived, and a tax was laid on the gross premiums of domestic insurance companies.

In 1885 the corporate loan tax was created, and in the same year manufacturing corporations were relieved from the payment of the capital stock tax. Subsequent legislation provided for the exemption of only so much of the capital of manufacturing companies as is invested in property employed exclusively in manufacturing.

In 1897 new taxes were laid upon direct inheritances (declared unconstitutional), on receipts of express companies (in addition to the tax on gross receipts), and on the matured stock of building and loan associations. Changes were made also in the method of taxing bank stock, in the licenses of distillers, brewers, etc.

The tax legislation of the last few years, including the tax on anthracite coal, the stock transfer tax, the change in the personal property tax by which this tax all goes to the counties, etc., are considered in their appropriate connections elsewhere in this Report.

The Tax System of Pennsylvania

In its taxation history Pennsylvania stands out (1) as the only state in the Union in which the general property tax has not had any real existence; (2) as one of the first states to affect a separation of state and local sources of revenue; and (3) as the first state to attempt a solution of the vexed problem of taxing intangible personal property by means of a low rate, which theoretically and in large measure practically, has prevented such property from migrating elsewhere and has produced a fair and increasing amount of revenue. In this State we have been further fortunate in that the Constitution places all taxation in the hands of the Legislature with but little restriction, thus providing an element of elasticity and adaptability to changing conditions, the absence of which in other states has proved a serious handicap upon normal fiscal progress.

Tax experts and economists are not by any means agreed as to the wisdom of the separation of state and local sources of revenue, and even in this Commonwealth where perhaps the conditions for the operation of this plan have been as favorable as anywhere, there is grave questioning as to whether inequality and injustice in taxation do not inhere in it. The thoughtful taxpayer in Pittsburgh who pays over 12 mills on his real estate to the city for general purposes, plus a 6-mill tax for schools, plus 3 mills or more to the county, a total of more than 2 per cent on the assessed valuation, which presumably represents the full value of his property and actually in many instances is in excess of its cash value—the property owner who pays these various taxes for the support of local government plus, possibly a 4-mill tax on his personal property, while public utility corporations escape, in the main, local taxation upon their real estate, and pay into the State Treasury a tax varying from 5 to 10 mills, may well inquire whether the separation of revenues does not impose upon him a heavier burden of taxation than upon other classes of taxpayers, or than would be necessary under a general property tax distributed over state, county and municipality. His doubt deepens when he recalls that the average professional and business man with an annual net income possibly many times his own pays nothing directly to the support of either, unless he happens to own real estate.

The prevailing political theory involved in the separation of state and local sources of revenue has been that the classified property tax approaches an equality between the taxation of those persons and property reserved for state taxation and those reserved for the support of local government; that by using different forms and methods of taxation a real equality of tax burden is secured. But has there ever been in this State an intelligent effort made to determine whether such equality of tax burden exists between the gross earnings tax on corporations accruing to the State and the local tax upon real estate; or between the several kinds of state taxes on corporations of various kinds or between the personal property tax and the tax on real estate? Having this fiscal principle in mind what, says the man on the street, is the justification for the exemption of machinery, or for the levying of a county road tax upon the real estate of a citizen of Pittsburgh who never uses or sees a county road, or for many other existing forms of taxation or exemptions from taxation which readily come to mind?

It must be recognized, of course, that under modern conditions we cannot apply the equality test of the old general property tax which in earlier days was universal and quite equitable in its practical operation. Nor can there be a logical basis for equating two entirely different systems of taxation such as income taxation and property taxation both of which should have their proper place in a well-balanced system of taxation, or of equating the property tax with the customs tax. The theory has proceeded on the assumption that those properties or incomes set aside to furnish revenue for the sustenance of one form of government need have no relative comparison with the rates imposed upon other properties or incomes for the support of a different government.

"Diversification of rates of taxation," says Professor Bullock, "agrees with the ordinary business principle of adjusting charges and prices to what the traffic will bear. No railroad charges as much for carrying logs as for carrying furniture; but the discrimination in favor of logs, by enabling that traffic to move, contributes to the revenue of the road and decreases the charges upon furniture and other traffic of higher grade * * * . Reasonable discrimination between the objects of taxation is the principle upon which our customs tariff and internal taxes upon commodities are now adjusted. We tax beer at one rate, spirits at another, and tobacco at another, and no sensible man would propose to tax all three commodities at a uniform rate. Our tariff taxes cut diamonds at the rate of 10 per cent and levies upon sugar a duty equivalent to 60 per cent *ad valorem*. This discrimination is both just and expedient, since a duty of 60 per cent upon diamonds would lead to so much smuggling as to produce little revenue; while the duty of 10 per cent yielded in 1905, $2,500,000.

"This illustration not only makes clear the necessity of adjusting taxation to 'what the traffic will bear,' but points to the reason therefor. The duty of 10 per cent can be collected from any dealer in diamonds because the government succeeds in collecting it from practically all dealers. If the duty were raised to 60 per cent, and a few dishonest dealers were tempted to evade payment of it, the honest dealers who would have no objection to paying duties uniformly collected upon all persons engaged in their trade would have no choice but to resort to smuggling or go out of business. Evasion of taxation, when it becomes general, is not due to dishonesty on the part of the average taxpayer, but to sheer inability of the honest man to pay his taxes when other persons succeed in evading theirs."

The principle of the classified property tax, however, does aim at substantial equality through a variation of methods and sources of taxation. But the arbitrary taxing of one class of property twice that of another class of property in the same state would, if the facts were well-established and understood, be seriously challenged. The fact is, of course, that comprehensive comparisons of tax burden as between classes of property or incomes are seldom instituted either under public or private direction, and yet such intelligent and thorough-going analyses and comparisons are essential to a full understanding of the situation.

Among the more striking of the bad effects attributed to the separation of state and local sources of revenue the following may be cited:

1. The indifference of the people of the state as a whole to state expenditures for the reason that they bear directly no part of the tax burden. All the people are privileged to expend what only a few people contribute.
2. Higher local taxes growing out of the absorption by local taxing districts of the savings anticipated under separation, and also out of the fact that in the absence of real equalization among counties the basis of assessment may rise quietly without the knowledge of the taxpayer.
3. The decentralization of local administrative machinery resulting in the familiar inequalities that prevail under such conditions.
4. The propaganda of home rule with its accompanying local tax exemptions is encouraged.

Because of these and other bad effects said to inhere in the plan of separation, it has generally been held among tax officials of large view that there should always be a direct state tax, small or large, but capable of expansion and of being felt by the people.

Contrary to the foregoing view, it has been urged that where state expenditures are controlled by a proper budgetry system, or by a state board of finance or public affairs, the extravangance arising from the lack of interest in state expenditures by the mass of people not taxed for state purposes is amply safeguarded. Whether the tax system be

based upon separation, segregation, the general property tax, or any other plan, there is imperative need for economy in expenditures and efficiency in administration realizable only through scientific budgetary control.

Even more significant is the need for scientific and equitable assessment of property and income. This necessarily involves central control, long tenure of office, adequate pay, and the protection of the civil service.

Under the system of separating state and local sources of revenue in this State real estate carries the burden of local revenues, being taxed for municipal, public school and county purposes. Certain specified classes of tangible personal property are taxed for county purposes, and the 4-mill tax upon intangible personal property such as mortgages, bonds, corporate loans, etc., of which formerly only three-fourths was returned to the counties, now all reverts to the counties.

The burden of taxation for state purposes is borne in large measure by the corporations which are subject to a number of special taxes. There is also a state tax on collateral inheritances, a system of business taxes and licenses, and special state taxes are levied on writs, wills, deeds, and certain emoluments of public office. Corporations are subject to local taxation on their tangible property the same as individuals. Public service corporations, however, are (by judicial decision) [1] exempt from local taxation on such property as is essential to their business, except in Philadelphia and Pittsburgh, where, by statute, the real estate of railroads is subject to local taxation. (For a more detailed discussion of these exemptions, see p. 25.)

Sources of State Revenue

A brief summary of the sources of state revenue follows:

Corporation Taxes

1. *Bonus on Charters.* By act of 1899 all domestic corporations, except building and loan associations and corporations of the first class, pay for the privilege conferred in their charters, at the time of beginning business or increasing stock, a bonus of one-third of one per cent upon the authorized amount of capital stock.

2. *Capital Stock Tax.* Under various acts the capital stock of corporations has been taxed since 1840, and joint stock associations since 1843. The present law enacted June 1, 1889, imposes a tax of 5 mills on the actual value of the capital stock of all corporations, joint stock associations, and limited partnerships, with the following exemptions: (a) banks, savings institutions, and foreign insurance companies, which are otherwise taxed; and (b) capital stock invested and employed in manufacturing, except brewing and distilling companies, and such manufacturing companies as exercise the right of eminent domain.

Fire and marine insurance companies are taxed at the rate of 3 mills, and wholesale distilling companies pay 10 mills.

In cases arising from the efforts of the taxing officials to impose the tax efforts are constantly being made to secure exemption for this or that process as "manufacturing." Among other business exempt are the following: printing and publishing, laundering, ship-building, oil refining, iron and steel manufacturing, dyeing cloth and fabrics, making artificial gas, bricks and other clay products, hams, bacon, etc., tobacco, leather, coke, slate, preserving fruit, manufacturing spices, drugs, etc., cement, asphalt, finished iron, steel, lumber, stone, etc. The foregoing list is suggestive of the classes of manufacturing which have been exempted from the payment of the capital stock tax.

This tax is imposed upon the corporation's property, assets and franchises. The corporation is merely a trustee for its stockholders, upon whom ultimately the burden falls. The question of the actual cash value of its property and assets, including franchises is one fact to

[1] Lehigh Coal and Navigation Co. vs. Northampton County, 8 Waltz & Serg. 344 (1845).

be determined by consideration of the value of its tangible property and assets of every kind, including its bonds, mortgages, franchises and privileges. The amount of encumbrances on the property and franchises is also relevant, though these are not specifically deducted from the valuation. In the well-known Nypano case (188 Pa., 169), the Supreme Court held that it would be a manifest error to hold that the debt should be deducted from the aggregate value of the property and thereby withdraw tangible property to that extent from taxation.

> As one commentator says: "The shares themselves which represent the owners' interests, less debts, have so little to do with the subject of taxation, the capital stock, that it is immaterial where they are held or who owns them, the property and assets, the capital stock, being in this state, that alone is within reach of the taxing power. That the owner subjects it to a bad debt in no way changes the relation of the Commonwealth to it as a subject of taxation; it constitutes the same capital stock as before; his relation to his own property has been somewhat changed, for by the mortgage debt he has admitted others to a share of the income, and has given them a lien for their debt; his title, however, remains just the same as if the owner of the legal title to land had placed a mortgage upon it. All the indications of ownership, the possession of the deed and domain over the property continue as if no debt had been created. The ascertainment of the actual value of the capital stock of solvent and well-managed corporations is clearly provided for and readily ascertained; but the act of 1891 was prepared with a view of reaching the property of corporations, where the mortgage indebtedness is equal to or far in excess of the actual value of the property, and which may have the same mileage, traffic and the same privileges as a solvent one. As the same rule for a fair estimate of the actual value of the stock cannot be adopted, as in the case of a solvent corporation, the Commonwealth's officers proceed under the authority expressly given to make an appraisement. The actual value is a pure question of fact, and is settled and adjusted by the Auditor-General and State Treasurer based upon the facts in the report made annually by the officers of the company, and in case they are dissatisfied with such valuation, they are authorized to make a valuation upon the facts in the report and other information within their possession.
>
> "The Constitution and Acts of Assembly require that taxes shall be uniform upon the same class of subjects. The acts imposing a tax on capital stock of corporations provide for the assessment and collection of a tax of 'five mills upon each dollar of the actual value of its whole capital stock of all kinds' * * * the principal object being to reach actual value. It would be almost impossible to apply the same rule or method of arriving at the actual value of the capital stock of a railroad company as to that of an electric light, water, land, natural gas, mining, brewing, trust or insurance company. In view of the impossibility of adopting a uniform or single method of arriving at a valuation and assessment of all corporations many years' experience in the assessment and collection of the State's revenues has resulted in the adoption of what might be called a sub-classification of the different subjects, the desire being to secure uniformity of valuation and assessment upon the same class of corporation taxables."[1]

All corporations, limited partnerships, and joint stock associations, except banks, savings institutions, foreign insurance companies, and trust companies are required to make annual reports to the Auditor General upon blanks prepared by him in such form as he deems best calculated to insure true returns. For convenience different blanks are used for different classes of companies—manufacturing, transportation, telegraph,

(1) Compendium and Brief History of Taxation in Pennsylvania, p. 66.

telephone and electric light; oil or gas; coal, coke, mining and quarrying; brick, slate, clay and stone; land, homestead and hotel; brewing or distilling; limited partnership; mercantile; and miscellaneous. "Failure to file reports within a specific time subjects the offender to a heavy penalty, although this is not always imposed or the payment of it insisted upon. Intentional failure for three successive years is made a misdemeanor, the officers being liable to a fine or imprisonment, but this extreme penalty has never been imposed."[1]

From the information furnished in these returns the taxing officials prepare a statement of the amount of the tax due and send a certified copy to the taxable. If the company regards the tax as unfair or excessive it may petition for a resettlement, "alleging any additional facts or reasons, or calling attention to facts in the report which they believe were not given proper consideration." The company also has the right to appeal to the courts. In recent years there has been a great amount of litigation growing out of these appeals, and the Auditors General in their annual reports have complained of the inadequate clerical and legal force to meet the powerful corporations on equal ground.

The most difficult problem arising in connection with the tax on capital stock, both for the companies taxed and for the taxing officials, is to ascertain its taxable value. The law requires the officers of the corporation to appraise it under oath "at its actual value in cash, not less however than the average price which said stock sold for during said year, and not less than the price or value indicated or measured by net earnings, or by the amount of profit made and either declared in dividends or carried into surplus or sinking fund."

Since comparatively few Pennsylvania corporations list their stock on the exchanges, the average daily selling price as a guide is for the most part lacking. The other standard, value of the property as indicated or measured by net earnings, is not always a safe guide in determining the actual value of the capital stock. A corporation may operate for years with no net earnings; then may come a year of great prosperity and a large dividend. It may be that over a period of ten years the stockholder has averaged one per cent on his investment; while the value of the property out of which future dividends are to be paid has been greatly impaired. What is the value of such property for taxation purposes? What dividends shall a corporation earn to justify an appraisement of its capital stock at par? To what extent shall indebtedness be considered and deducted in arriving at the taxable value of the capital stock? These and other complex questions are left to the judgment of the Auditor General's office.

3. *Gross Receipts of Transportation and Lighting Companies.* The tax on receipts of transportation companies was first levied in 1866, at the rate of 3/4 of one per cent upon the gross receipts of every railroad, canal and transportation company. The tax is now 8 mills on the dollar of gross receipts from business done within the State, and is levied upon every railroad, pipe line, steamboat, canal, street car, telephone, telegraph and express, electric light and car company, whether domestic or foreign. The tax does not apply to receipts derived from the carrying of mail nor to receipts from interstate business. This tax is in addition to the capital stock tax and the tax on corporate loans. In the legal sense this has been regarded as a franchise tax measured by the business of the corporation.

It should be noted that while electric light companies, under a supreme court decision[2] must pay a tax on receipts from their business both in the supply of current for lighting and for power purposes, yet artificial gas companies, the natural competitors of electric light companies, pay no tax either on their gross receipts or on their capital stock. As one commentator has said: "One cannot escape the conclusion that taxes are not exactly uniform upon the same class of subjects, or else the classification is somewhat at fault."[3]

(1) Hause: Proceedings of Sixth National Tax Conference, p. 126.
(2) Commonwealth vs. Edison Electric Light Co., 204 Pa., 252.
(3) N. E. House, Taxation for State Purposes in Pennsylvania, Sixth National Tax Conference.

4. *Gross Premiums of Domestic Insurance Companies.* Domestic insurance companies, except those doing business on the mutual plan, without capital or reserve pay a tax of 8 mills on the gross amount of premiums and assessments received from business done within the State. This tax is in addition to the capital stock and personal property taxes, but bonds, mortgages, and other securities held by these companies in their own right do not have to be returned as personal property, as they are included in the tax on capital stock.

Foreign insurance companies pay an annual tax of 2 per cent (reduced from 3 per cent by act of 1895) on gross premiums received from business done within the State. These companies are not subject to any other tax in the State unless they own real estate which is taxable for state purposes.

One-half of the net amount received from the tax on business done in Pennsylvania by foreign fire insurance companies is paid annually to cities, boroughs, and townships of the first class, based upon the business done in each locality by such companies.

5. *Net Earnings.* Corporations and limited partnerships which have no capital stock, or which do not pay a tax on capital stock are required to pay a tax of 3 per cent on their net earnings or income. This applies to unincorporated savings institutions, but yields little revenue.

6. *Corporate Loans.* This tax, levied at the rate of 3 mills prior to 1891, but 4 mills since that act, is laid on the nominal value of all mortgages, bonds, notes, scrip, judgments, and certificates of indebtedness of all corporations, public and private, except banks, savings institutions and foreign insurance companies, but including county and municipal bonds.

The tax is not on the corporation or its property, but on the individual owner of the bonds; and the corporation acts as collector. When the treasurer of the corporation pays the interest on the outstanding obligations, for which some evidence of indebtedness is issued, he deducts the amount of the tax from the interest due and turns it into the State Treasury. For his services as agent of the Commonwealth in collecting the tax, the treasurer of the corporation is allowed 5 per cent on the first thousand dollars, or less collected, one per cent on the second thousand or fraction, and one-half of one per cent on any amount over $2,000. While the tax is supposed to be on the bondholder it is estimated that 75 per cent of the mortgages securing corporate bonds provide that the interest shall be paid free of all state taxes, so that in practice the tax is paid mainly by the corporations.

Obligations issued by private corporations are exempt from taxation when owned by: domestic corporations paying a tax on capital stock; national banks, or state banks or savings banks which pay the 4-mill tax on or before March first of each year; trust companies which pay a tax on the value of their shares on or before March first; nonresidents; institutions of purely public charity; when no interest has been paid on the obligations during the year; when held by persons whose residences cannot be ascertained. Bank notes, or notes discounted or negotiated by any bank are not taxable, under a proviso to the act imposing a tax on personal property, nor are promissory notes given for current indebtedness, nor merchandise notes. Individuals owning obligations of domestic corporations are not required to return them for taxation to the local assessor, as that would result in double taxation.

One of the difficulties in the collection of this tax on corporate loans is the locating of the owner of the obligations. The coupons of unregistered coupon bonds are usually deposited with banks, and pass from one institution to another until finally presented to the bank or trust company where they are payable. Rarely is the coupon presented by the real owner, yet the treasurer of the corporation is expected to discover the whereabouts of the bondholder. The corporation is not

liable for the tax if it fails to find the owner but it must satisfy the taxing officials that it has exercised reasonable diligence in the effort to locate him. A compromise is sometimes made by the tax officers by taxing a part of the bonds, when the return or affidavit does not show the exercise of due diligence. "Bankers and brokers uniformly decline to reveal the names or residences of their customers, the company in many cases being penalized for its failure to obtain information that could not be secured."[1]

Another difficulty, elsewhere referred to, is met in the attempt to tax the obligations of foreign corporations. Such corporations are required to report their loans or indebtedness, but the right of the state to collect the tax on such obligations has not been sustained by the courts. The Supreme Court of Pennsylvania in the appeal of the N. Y., L. E. & W. R. R. Co. (145 Pa., 57), held that that corporation was subject to the tax, but the United States Supreme Court (153 U. S., 628), reversed this decision, holding in effect that the State of Pennsylvania could not constitutionally require the corporation, when paying in New York the interest due on its obligations held by residents of Pennsylvania, to deduct from interest so paid the amount assessed against these obligations. The lower courts have followed the decision of the Federal Supreme Court. Despite the lack of definite authority to collect this tax, "thousands of dollars have been collected on this account, and settlements are regularly made against foreign corporations doing business in Pennsylvania, or which have brought themselves apparently within the jurisdiction."[2]

7. *Bank Stock.* Banks were the first class of corporations to be taxed in Pennsylvania, the original act taxing the dividends of banks being passed in 1814. Since then bank taxation has undergone many changes. The act of 1897 under which banks are now taxed provides for a 4-mill tax on the actual value of the shares, such value to be determined by adding the amount of the paid-in capital stock, the surplus, and the undivided profits, and dividing this amount by the number of shares.

Banks may elect to pay a tax at the rate of 10 mills on the par value of their stock. This alternative discriminates in favor of the strong banks against the smaller and weaker. No bank will elect to pay the 10-mill tax until its capital, surplus and undivided profits are two and one-half times its capital stock. Thus, a bank with a capital of $100,000, surplus of $100,000, and undivided profits of $50,000, may pay either the 4-mill tax on $250,000, the actual value of its shares, or 10 mills on the par value of its capital stock; the tax in either case is $1,000. But a bank having a capital of $200,000, with $550,000 of surplus and undivided profits pays $2,000 under the 10-mill tax, whereas it would pay $3,000 under the flat rate of 4 mills. It is estimated that the application of the 4-mill rate would yield to the State $400,000 annually more than under the alternative plan.

Banks paying this tax on or before March first are exempt from local taxation, except upon their real estate, and are not required to make a personal property return to the local assessors. Banks may elect to pay this tax either by taking the amount from their general fund or by collecting it from the stockholders; usually the former practice is followed. The shares of stock of national banks cannot be taxed in the hands of holders (*Boyer vs. Boyer*, 113 U. S., 689). National banks are taxed in the same manner and at the same rate as state banks.

The tax on bank stock is, in effect, a tax on the personal property of the stockholder, the bank acting as the agent of the Commonwealth though without compensation, in collecting it. Banks are not allowed any exemption on account of ownership of corporate stock, or of bonds of the United States, or of the State of Pennsylvania.

Private bankers pay a tax of 10 mills on their gross receipts.

(1) Hause: Sixth National Tax Conference, p. 149.
(2) Ibid.

Building and loan associations are taxed at the rate of 4 mills on their full-paid, prepaid, and matured or partly matured stock, upon which cash dividends or interest is paid, the tax to be deducted from such dividends or interest.

Trust companies, title insurance, and safe deposit companies pay a tax of 5 mills upon the value of their shares of stock, based upon paid-up capital, surplus, and undivided profits.

Payment of the tax on or before March first exempts from further tax, except upon real estate. These companies are also exempted from taxation on so much of their capital, surplus, and profits as is invested in the stock of corporations liable to the capital stock tax.

Prior to 1907 trust companies were taxed like other corporations at the rate of 5 mills on the average price at which the stock sold during the year, or on the value as shown by net earnings or dividends. Banks pay 4 mills on their capital, surplus and profits. The stock of some of the larger trust companies sold for several hundred dollars a share more than its book value. This was regarded by the trust companies as unfairly discriminatory and they succeeded in having the law changed, Inasmuch, however, as trust companies for the most part do a banking business in addition to their fiduciary and cognate activities, there does not seem any valid reason for taxing them on a different basis from commercial banks.

From the foregoing summary and the accompanying tables it appears that the several kinds of taxes upon corporations yield the bulk, approximately 70 per cent of the revenues of the state. It is further evident that the sub-classification of corporations and business with varying bases and rates of taxation which have been evolved leave the layman and, doubtless, the taxpayer also, entirely at sea as to the relative burden of taxation which each of these several classes bears. It is small wonder that the tax commission of 1887 proposed a single tax on corporations as a substitute for the various corporation taxes then existing.

Receipts From and Through Counties

1. *Personal Property Tax* [1] All personal property of the classes enumerated in the statute, including mortgages, notes, bonds, judgments, public loans, corporate bonds, interest-bearing accounts, etc., are subject to taxation at the rate of 4 mills. The tax is assessed and collected by county officials, and paid to the county treasurer, who prior to 1913 paid it into the State Treasury. That act made the tax on personal property a county instead of a state tax, the entire receipts accruing to the former.

Originally the entire revenue from the personal property tax went to the State, but an act of 1891 provided that for the year 1892 and annually thereafter, three-fourths of the net amount of the tax should be returned to the counties for their own use in payment of the expense incurred in the assessment and collection of the tax. According to Eastman, the practice of returning a part of the state tax on personal property to the counties grew out of the confusion, expense and labor devolving upon the Board of Revenue Commissioners who had charge of it. When the State retained the entire tax it paid the expenses of collection to the counties collecting it, remitted uncollectible taxes, paid the expense of keeping the daily records of deeds, judgments, mortgages, etc. In order to be relieved of this drudgery and expense, the Board recommended that in lieu of all payments and credits to the counties, a fixed proportion of the tax should be returned to the counties which should assume the expenses of every kind connected with the tax. In keeping with this recommendation the Act of 1889 provided that one-third of the tax should be so returned. "In 1891, when there appeared to be great danger of the passage of the 'Granger' revenue bill then pending, it was agreed, as a sop to Cerberus, to increase the proportion to be returned to three-fourths, which was done. The one-third granted by the act of 1889 was given in commutation of payments theretofore made, but the

[1] Since 1913 this tax has been exclusively a county tax.

difference between one-third and three-fourths, given by the act of 1891, was a donation. It will probably be impossible for the Commonwealth ever to discontinue this donation, and reassume its own no matter how badly it may need revenue."[1]

The act of 1913 making this tax a county and not a state tax fulfills this prediction.

Since 1907 the annual receipts from the personal property tax have exceeded $4,000,000, and in 1913, the latest year for which data are available, the receipts amounted to $5,312,176.

A more detailed consideration of the personal property tax, recommending its abolition and the substitution of a graduated income tax will be found elsewhere in this Report.

2. *Tax on Writs, Wills, Deeds, etc.* This is one of the oldest methods of taxation in the State, dating back to 1830, since which time few changes have been made in the law. The law provides that prothonotaries shall demand and receive fifty cents on all original writs issued, except the writs of habeas corpus, and on the entry of every amicable action; fifty cents on all writs of certiorari issued to remove the proceedings of a justice of the peace or alderman; fifteen cents on every entry of a judgment, when suit has not previously been commenced; and twenty-five cents on every transcript of a judgment of a justice of the peace or alderman.

Recorders of deeds collect fifty cents for every deed, mortgage, or other instrument in writing to be recorded.

Registers of wills collect fifty cents for the probate of a will and letters testamentary, and fifty cents for granting letters of administration.

A state tax of $10 is levied on the commissions of inferior officers of cities and counties, such as sheriffs, clerks of courts, health officers, etc.

All county officers are required to make monthly returns and to pay over monthly to the State Treasurer all fees received. A commission of three per cent is allowed for these collections.

3. *Collateral Inheritance Tax.* In 1826 a law was passed taxing collateral inheritances in this state, which was the first to levy such a tax. The policy of taxing inheritances thus established has spread to most of the states and in many of them has been extended to direct as well as collateral inheritances. The act now in force was passed in 1887, and amended in 1905. It provides for a tax of 5 per cent on estates of decedents, whether the decedent be domiciled within or out of this State, and upon estates situated in another state when the decedent had his domicile in this State, except such as passes to father, mother, husband, wife, children and lineal descendants born in lawful wedlock, children of a former husband or wife, or the wife of a son of the decedent. By the act of 1911 an estate bequeathed to adopted children is not subject to the tax. Estates valued at less than $250 are not subject to the tax.

Collateral inheritance taxes are collected by the register of wills in each county who acts as the agent of the Commonwealth. He appoints an appraiser when necessary to determine the value of the estate subject to the tax. The appraiser's compensation is fixed at $2 a day and necessary traveling expenses, but where expert or technical appraisers are necessary proper additional compensation is allowed. For his services in collecting the tax the register of wills is allowed a commission of 5 per cent upon the amount collected, if such tax is less than $200,000 in any year; 4 per cent if the amount is more than $200,000 and less than $300,000; and 3 per cent if the tax collected exceeds $300,000.

In 1897 Pennsylvania enacted a direct inheritance tax exempting estates of $5,000 in value, but this law was declared unconstitutional by the Supreme Court (*Cope's Estate*, 191 Pa.), as being in violation of the Constitutional provision (Art. 9, Sec. 1), declaring that all taxes shall be uniform upon the same class of subjects. Since this decision

[1] Eastman, p. 162.

no further effort has been made to establish a tax on direct inheritances. Your Committee is of the opinion that efforts should now be made to amend the Constitution and secure the necessary legislation to provide for a graduated inheritance tax. (For a more complete discussion of this question, see p. 49.)

4. *Corporate Loans Tax.* All scrip, bonds, or certificates of indebtedness issued by any private corporation, domestic or foreign, doing business in this State, and all scrip, bonds, or certificates of indebtedness issued by any county, city, borough, town, township, school district, or incorporated district, which are held by residents of Pennsylvania, and are not exempt from taxation, are taxable annually for state purposes at the rate of 4 mills on each dollar of their nominal value.

The following obligations are not taxable: (a) bank notes, or notes discounted or negotiated by any bank, trust company, or savings institution; (b) building and loan associations, or savings institutions having no capital stock; (c) fire companies, firemen's relief associations, life or fire insurance corporations having no capital stock, labor unions and associations, and relief organizations paying sick or death benefits; (d) securities owned in their own right by corporations, limited partnerships and joint stock associations liable to the capital stock tax. None of the classes of property made taxable for state purposes under the corporate loans tax shall be taxed for county, school, or other local purposes.

As shown by the foregoing, corporate loans are of two classes: (a) county and municipal loans; (b) loans of private corporations. County and municipal loans were the first to be segregated from the classes of property subject to the general state tax on personal property by an act passed in 1844 and amended in 1864. This latter act made the loans of private corporations a separate subject of taxation.

The tax on corporate and municipal loans has been held to be identical in character, though collected in a different way, with the state tax on personal property. This latter tax, however, has since 1913 been a county and not a state tax. The tax both on private corporations and municipal loans is collected at the source. The treasurer of a private corporation is required to deduct the amount of the tax from the interest due holders of its obligations, and to pay it into the State Treasury. For this collection service he receives a commission of 5 per cent on collections up to $1,000, one per cent on collections between $1,000 and $2,000, and one-half of one per cent above $2,000. If he fails to assess and pay the tax, the Auditor General and State Treasurer are authorized to add to the amount of the tax settled against the corporation a penalty of 10 per cent.

Likewise the treasurers of counties, cities, and other local governments are required to deduct the tax from the interest due on their obligations, but they receive no commission for this service.

A more extended discussion of this tax will be found elsewhere in this Report.

5. *Notary Public Commissions.* The act of 1875 authorizes the Governor to appoint as many notaries public as in his judgment the interest of the public requires. Each appointee is required to pay $25 into the State Treasury before receiving his commission.

Earlier laws provided for the payment of money into the State Treasury by state officers, agents and employees receiving fees, distinguishing between those collected for their own use and those collected for the Commonwealth, but under the acts of 1905 and 1906, all state officials are required to pay into the State Treasury all fees, percentages and commissions.

6. *Receipts From Licenses.* Licenses are among the oldest sources of state revenue, and at the present time yield in the aggregate a considerable revenue.

(A MERCANTILE LICENSES

Mercantile taxes date back to 1821 when a law was passed requiring dealers in imported merchandise and in liquors to take out the proper city or county license. The mercantile license tax is essentially a tax upon business, upon wholesale and retail venders, rather than a license tax. Wholesalers are required to pay for state purposes an annual tax of $3 plus one-half mill on each dollar of the gross volume of business transacted; retailers pay $2 and one mill. Venders of goods at any exchange board of trade pay an annual tax of 25 cents on each $1,000 worth of goods, gross, sold during the year. Venders whose sales do not exceed $1,000 or feme sole traders or single women whose sales do not exceed $2,500, and persons selling articles of their own growth, are exempt from the payment of the tax.

Mercantile appraisers are appointed by the county commissioners, except in Philadelphia where the Auditor General and the city treasurer appoint five appraisers. They distribute blanks prepared by the Auditor General to all venders assessable, and require each vender to make a return under oath or affirmation of the amount of goods sold during the year. If dissatisfied with the return, the appraiser may assess the tax at such sum as he shall deem proper. The vender has the right to appeal to the county treasurer and the mercantile appraiser, or to the board of mercantile appraisers where such board exists.

The appraiser receives a fee of 50 cents for each license issued and 6 cents a mile for necessary traveling expenses.

The county commissioners are required to publish in not less than two or more than three newspapers of general circulation, one of which shall represent the minority party (one may be a German or Welsh paper), the list of persons subject to the tax and the amount assessed. The amount paid for advertising these lists must not exceed 10 per cent of the amount of mercantile tax received.

After the lists are published, the constable of each ward, district, or township compares them and reports to the county treasurer all omissions found, for which service he receives a fee of fifty cents for each omission reported.

The county treasurer recevies as collecting agent a commission of 5 per cent when the whole sum paid into the state treasury does not exceed $1,000; one per cent on the excess above $1,000; one-half of one per cent above $2,000. He may also collect 25 cents on each license for making out, registering and delivering the license.

For years wholesale and retail merchants have protested against this tax, the chief contentions being: (a) that as a tax on gross sales rather than on profit, it bears heavily upon those who do a large volume of business in staple articles upon a narrow margin of profit; and (b) that under the system of piling fee upon fee and advertising the lists, it is too expensive to collect (in recent years about 10 per cent).

The tax has been defended on the following grounds:

(a) It bears equally upon all competing merchants, and it can easily be allowed for as an item of expense of the business, and be passed on to the consumer in the selling price.

(b) As now laid the tax can be ascertained easily and accurately. If laid upon profit the same difficulty in reaching an accurate estimate would obtain, and it would necessitate far more inquisition than the present method.

(c) Business has become adjusted to the tax, and private business should in fairness bear part of the burden of government, when corporations have to bear so much heavier burdens in the way of capital stock tax, and public service corporations bear in addition a tax of 8 mills on their gross receipts, which is also a tax upon privilege laid in the same way. (A closer analogy would be with manufacturing corporations. If they are taxed as suggested elsewhere, some of the weight of the objection to the tax on merchants would be removed.)

(d) Money which is active in business and so is being constantly

turned over is a specially fit subject for taxation. If the money of the merchants be not taxed a large amount will escape its share of the public burden.

While recognizing the validity of some of these arguments, your Committee is of the opinion that the mercantile license tax should be abolished: (a) because the involved fee system connected with it makes it objectionable; (b) because its collection is too expensive; (c) because the graduated income tax elsewhere proposed will more fairly reach the ability to pay of those engaged in merchandising, a business which *as a business* should be as free as possible from unnecessary burdens and restraint; and (d) because this tax is shifted to the consumer who thereby makes no conscious contribution to government. An income tax will more effectively and fairly reach the consumer.

(B) LIQUOR LICENSES

(a) *Retail.* Licenses for the sale of spirituous, malt or brewed liquors are rated under the act of 1891, as follows: Cities of first and second class, $1,000; cities of the third class, $500; all other cities, $300; boroughs, $150; townships, $75. From the passage of the act of 1891 to that of 1897, all retail liquor licenses were collected for the use of the localities only, the Commonwealth receiving no share.[1] The act of 1897 provided that an additional license fee, for the use of the Commonwealth, be paid by all retail liquor dealers as follows: Cities of the first and second class, $100; cities of the third class, $50; all other cities, $50; boroughs, $50; townships, $25.

Elsewhere it is recommended that the extra $100 retail liquor license tax in cities of the second class which now goes to the State should inure to the city.

(b) *Wholesale.* Wholesale dealers in vinous, spirituous, malt or brewed liquors, or any admixture thereof, pay for the use of the State, the following annual license fees: Cities of the first and second class, $1,000; cities of the third class and other cities, $500; boroughs, $200; townships, $100. The proceeds of all wholesale liquor licenses are paid into the State Treasury for the exclusive use of the Commonwealth. Both retail and wholesale liquor licenses are issued by the Court of Quarter Sessions of each county. For several years the total amount of retail liquor license taxes paid into the State Treasury has averaged over $600,000 a year, and wholesale over $700,000 a year.

(c) *Brewers and Distillers.* The amount of license fees paid in for the use of the Commonwealth is determined by the quantity produced in the preceding year, and varies from $250 to $6,000 for brewers, and from $100 to $2,000 for distillers. New breweries and distilleries pay a license fee of $1,000 for the first year. Brewers' licenses are issued by the State Treasurer.

Brewing and distilling companies also pay a capital stock tax of one per cent, a bonus on their charters of one-third of one per cent, and a tax on their corporate loans of 4 mills.

(d) *Bottlers.* The act of 1897 provides that each bottling establishment shall pay an annual license fee, graded according to location in a city, borough, or township, as follows: Class 1, in first class cities, $500; class 2, in second class cities, $500; class 3, in other cities, $350; class 4, in boroughs, $250; class 5, in townships, $125.

(C) OTHER LICENSES

Billiards, Pool, Etc. Persons maintaining billiard or pool tables and bowling alleys are required to pay licenses as follows: $30 for the first table or alley; $10 for each additional table or alley. The mercantile appraisers are required to report to the county treasurer the names

[1] Compendium and Brief History of Taxation, p. 91.

of persons keeping such tables. In 1913, the total revenue from these licenses amounted to $124,395.

Employment Offices or Agents, under a law passed in 1915, pay a license fee of $50, and must file with the Commissioner of Labor and Industry a schedule of fees to be charged.

Other Licenses include stock, bill, exchange, merchandise, and real estate brokers, and auctioneers, who pay 3 per cent upon their annual receipts; peddlers and hawkers to whom many special acts for different localities apply; license for theatres, circuses, etc., which pay an annual fee of $1,000; restaurants and eating houses which pay fees varying from $5 to $20; etc., etc.

7. *Anthracite Coal Tax.* Under a law passed in 1913, which was declared unconstitutional and reenacted in 1915, the state levies a tax upon anthracite coal at the rate of 2½ per cent of the value when prepared for market. One-half of the proceeds of this tax is set aside permanently in a fund to be used for the construction and repair of the state highways; the other half is paid to the treasurers of the several counties from which the tax was received in proportion to the amount of the tax so collected from these counties. The county treasurers in turn distribute these receipts to the several cities, boroughs and townships where the coal is mined or washed, prorata according to population by the last preceding Federal census.

8. *Stock Transfer Tax.* By an act passed in 1915 a tax of 2 cents on each $100 of the face value is imposed on all transfers of shares or certificates of stock. In cases where certificates are issued without designated monetary value the tax is at the rate of 2 cents on each share. This tax is in the form of stamps which are prepared by the Auditor General, and which must be affixed by every person selling or transferring stock certificates, under a penalty of a fine of $500 to $1,000, or imprisonment for a term not exceeding six months, or both.

9. *Miscellaneous Receipts.* The state receives revenue from a great variety of miscellaneous taxes and licenses other than those above noted. Some of these yield a considerable annual revenue, but most of them are of little importance as revenue producers. Among the latter are escheats, fines, fishing licenses, oleomargarine and renovated butter licenses, cold storage licenses, tax on sale of fertilizers, dairy inspection fees, cup vending sales, stallion license, tax on bankers' gross receipts, and on notarial gross receipts, etc., etc.

Fees of state officers, such as clerks of courts, registers of wills, recorders of deeds, etc., who are required to pay into the state treasury part of their fees, amounted in 1913 to $364,492. Hunters' licenses yielded $164,298; oleomargarine licenses, $134.735.

The receipts from automobile licenses yielded a total of $840,916. With the rapid increase in the use of automobiles the revenue from this source has, doubtless, greatly increased and will continue to increase.

Your Committee recommends that the license for all motor vehicles be increased 50 per cent, and that the receipts be distributed 30 per cent to the cities, boroughs or townships; 40 per cent to the State, and 30 per cent to the counties.

APPENDIX C

LOCAL TAXATION

Subjects of Taxation—County

Under existing statutes the present subjects of county taxation include:

1. Real estate, embracing specifically "houses, lands, lots of ground and ground rents, mills and manufactories of all kinds, furnaces, forges, bloomeries, distilleries, sugar houses, malt houses, breweries, tan-yards,

fisheries and ferries, wharves, and all other real estate not exempt * * * ."

2. Horses, mares, geldings, mules and neat cattle over the age of four years.

3. All "salaries and emoluments of office, all offices and posts of profit, professions, all single freemen over the age of twenty-one years who shall not follow any occupation or calling, and all trades and occupations, except the occupation of farmer."

4. *Personal Property.* Under this heading the assessment blanks used by the Board for the Assessment and Revision of Taxes enumerate the following items:

A. All mortgages, except those issued by Pennsylvania corporations whether they bear interest or not.

B. Judgments, whether held within or without the State, and whether interest bearing or not.

C. Promissory notes, whether given by residents or non-residents of the State, and whether they bear interest or not.

D. Bonds and stocks, estimated at market value on January 1: (a) Bonds issued by individuals, firms or corporations outside of Pennsylvania, or by individuals or firms in Pennsylvania, not including bonds of Pennsylvania corporations; (b) State, county and municipal bonds and those of foreign countries, except bonds of the United States, Pennsylvania or any of its sub-divisions; (c) car trust securities, except those issued by Pennsylvania corporations; (d) shares of stock of all foreign corporations, except national bank stock.

E. Shares of stock and bonds of corporations chartered by the courts.

F. Moneys in bank bearing interest, including certificates of deposit or pass books issued by national, state, or private banks, trust companies, or banking institutions.

G. Accounts bearing interest and articles of agreement bearing interest including those for the sale of land either inside or outside of Pennsylvania.

H. Annuities over $200, except those granted by the United States. (This means the amount which, if invested according to the established annuity tables, will produce the annuity owned by the taxable subject.)

I. Other forms of security or evidence of indebtedness not included in the above.

J. Traction engines, whether for hire or not.

K. Vehicles used for transporting passengers for hire, except steam and street passenger railway cars. (Return of this taxable is required of corporations as well as individuals.)

Every person twenty-one years old and upward, and every firm, unincorporated association, or corporation not specifically exempted, resident, domiciled, or doing business within the State, owning or holding any property of the classes enumerated as taxable personal property, is required to make each year a return under oath of the value of such property.

> "Failure of a taxable to make a return will cause an estimated return to be made by the assessor, to which 50 per cent penalty will be added, and this will form the basis of taxation, unless appeal is made to the Board within ten days of the date of notice of such assessment."

The making of a false or fraudulent return is willful and corrupt perjury, and is subject to a fine of $500, imprisonment not exceeding seven years, and the perpetual disqualification of the person making the same from being a witness.

Should an assessor agree with any taxable subject, that upon the failure of such person to make the required return he will return a less amount of property than should have been returned, such person entering

into such agreement shall be guilty of conspiracy, and be subject to a fine of $1,000 and imprisonment for three years.

Elsewhere in this Report your Committee has recommended the abolition of the personal property tax and the substitution of a graduated income tax administered by the State.

Exemptions

The law providing for taxation for county purposes specifically exempts the following:

(1) Bank notes, or notes discounted or negotiated by any incorporated bank or banking institution, savings institution, or trust company.

(2) Building and loan associations, or saving institutions without capital stock. This does not exempt individual depositors in non-stock savings banks from taxation to which they may be subject.

(3) Fire companies, firemen's relief associations, life and fire insurance companies having no capital stock, secret and beneficial societies, labor unions and labor relief associations, and all beneficial organizations paying sick or death benefits out of voluntary contributions or assessments.

(4) Securities owned by corporations, limited partnerships, and joint stock associations liable to the state tax on capital stock, except such securities as are held in any other manner than for the whole body of stockholders or members.

None of the classes of property thus taxable for county purposes are taxable for any other local purpose or for state purposes.

The annual county tax is limited to 1 per cent of the adjusted valuation of the property taxable.

Road Tax

The county commissioners are authorized to levy and collect an annual tax of not more than 2 mills upon all real and personal property taxable for county purposes to provide a fund for the construction, maintenance and improvement of roads, under the Act of 1911. The money collected from the road tax cannot be used for any other purpose.

County commissoners may also assess and collect "an annual tax of not more than 2 mills on the dollar on all real and personal property, made taxable for county purposes by this article for the purpose of securing a fund from which to pay all costs, damages and expenses required in the locating, opening, constructing, maintaining and repairing public highways, bridges or tunnels," under the provisions of the road tax act. (Act of 1911.)

Poor Tax

In any county constituted a poor district under the Act of 1879 the commissioners may levy and collect annually a tax not exceeding ten mills on the dollar of the assessed valuation, "for the purpose of supporting the poor, paying officials and employes, and the current expenses of managing the poor farm and work upon it." They may also levy a building tax, not to exceed one-half of the amount levied for the current expenses of the county poor district, for the purpose of paying the debt incurred in the purchase and improvement of the real estate required, and to redeem bonds issued for this purpose.

Assessors

Assessments for purposes of county taxation are made (in townships of the first and second classes by the township assessors, and in boroughs by the borough assessors elected) as follows:

(a) In counties with a population of 300,000 to 1,400,000 assessments are made by a board of three persons, known as the Board for the Assessment and Revision of Taxes.

In counties with a population of 300,000 to 1,000,000 the members of the Board are *appointed* by the county commissioners for four years; salary, $5,000 a year.

The Boards for the Assessment and Revision of Taxes in counties with the population aforesaid divide the county into districts and appoint one subordinate assessor for each district. Sub-assessors in counties of 300,000 to 1,000,000 receive $3 a day for the time actually employed; and in counties of 800,000 to 1,400,000 the rate is $4 a day.

Ward, borough or township assessors in such counties perform no duties in connection with the making of assessments for county purposes.

(b) In boroughs not divided into wards, and in wards of boroughs so divided, except in counties of 300,000 to 1,400,000, assessors are *elected* quadrennially for each of such districts for a term of four years. Borough and ward assessors receive $2.50 a day for each day necessarily employed, and assessors in townships of the second class receive $3.50 a day.

In townships of the first class, except in counties of 300,000 to 1,400,000, township assessors are *elected* quadrennially for four years; and in the year next preceding the triennial assessment two assistant assessors, residents of the township, are elected, "whose duty shall extend only to the valuation of property for taxation." The assessors are paid $10 a day and the assistant assessors $5 a day, for each day actually employed, in making the triennial assessment, to be paid by the county. In the intervening years the township assessor receives $10 a day for each day actually employed.

(c) In cities of the third class, except in counties with population of 300,000 to 1,400,000, an assessor of county taxes is *elected* for each ward to serve for four years.

(d) In cities of the second class not in a county with a population of 300,000 to 1,400,000, and in any other city in which the election of assessors of county taxes is not otherwise provided for by law, one citizen residing in the ward is *elected* for each ward to serve for four years, and two assistant assessors are elected at the municipal election next preceding the year for making the triennial assessment, who serve during the time of making such assessment.

If any person elected to the office of assessor refuses or neglects to qualify, or if the electors fail to choose an assessor, or if any vacancy occurs in the office, the county commissioners are required to *appoint* an assessor to serve until the next election.

Assessments (1)

The several assessors are required to assess all objects of taxation at their "actual value" and "at such rates and prices for which the same would separately bona fide sell." The commissioners or the board of revision, if they believe any assessment is below actual value or above it, may raise or lower such assessment.

All real estate must be assessed at its "actual value" without any deductions on account of the value of any ground rent, dower, mortgage, or other encumbrance thereon and shall be taxed accordingly.

As soon as the assessors for county purposes have made their returns, the county commissioners make out and publish in two newspapers for two weeks a statement showing the aggregate value and assessment made by each assessor in the county, also the amount of taxes assessed in each ward, district or township in the county.

From the time of filing the returns in the office of the county commissioners until the day fixed for the appeals, any taxable inhabitant of the county may examine them in the commissioners' office.

Revision, Equalization and Appeal

The county commissioners constitute a Board of Revision to examine the returns of the assessors in the triennial assessment to determine

(1) A more detailed discussion of county assessments is presented elsewhere in this Report.

"whether all property liable to taxation for county purposes has been valued at a sum not less than the same would bring after full public notice at a public sale, as if each lot, piece or tract of land, with the improvements, or the personal property of each individual or corporation were separately sold." They shall consider the written communication of any taxable inhabitant relative to any property which such taxable shall believe to have been reduced too low, and shall raise the valuation of any property which they shall believe to have been reduced too low. If any valuation is raised by the Board of Revision notice must be given to the owner.

When the assessors' returns have been revised, the county commissioners estimate the probable expenses of the county for the year, and fix the tax rate or levy, assessing the proportion of every ward, township or district, according to the adjusted valuation of the taxable property and other subjects of taxation. The levy must be uniform on all townships, and be based on the assessments as returned and collected. The county commissioners send an accurate transcript of the assessments to be made to the various assessors, with a statement of the rate or millage, and the date set for appeals.

The assessors upon receiving this transcript give written or printed notice, at least five days before the day of appeal, to every taxable inhabitant, of the amount for which he stands rated, the rate, and the time and place of appeal. The county commissioners give notice of the time and place of appeal by advertisement in one or more newspapers printed in or nearest to the county seat at least three weeks before the day of appeal. The assessors are required to attend the meetings for hearing appeals "to prevent imposition being practiced on the commissioners."

In each of the two years following the triennial assessment the county commissioners furnish the local assessors with a transcript of the triennial assessment and require them to assess "all freemen and all personal property, all offices and posts of profit, professions, trades and occupations taxable, all single freemen who have arrived at the age of twenty-one years since the last triennial assessment, and all others since that time who have come to inhabit in such ward, township, or district, together with the taxable property such persons may possess and the valuation thereof, and to re-assess all real estate which may have been improved by the erection of buildings or other improvements, subsequent to the last triennial assessment, and all real estate the value of which shall have been decreased by the destruction of buildings, or by the mining out of minerals." The assessors have 90 days in which to make these assessments and re-assessments.

Records of Taxable Personal Property—The law provides that in counties having a population of over 500,000, except counties co-extensive with cities, deeds and other conveyances of real estate must be registered in the office of the county commissioners prior to being admitted to record in the office of the recorder of deeds.

Recorders of deeds and prothonotaries are entitled to receive 10 cents for each mortgage, judgment, lien, assignment or satisfaction thereof reported to the county commissioners or board of revision of taxes. No fee is allowed if the residence is omitted in the report. The total amount of such fees allowed to any recorder or prothonotary may not exceed $600 a year.

The recorder of deeds, in counties having a population not exceeding 400,000, must keep a daily record of all deeds and conveyances of land, and file a certified copy of such records with the county commissioners on the first Monday of each month. The recorder collects from each person presenting a deed for record 15 cents when it contains but one description of land, and 10 cents for each additional description. A statement of these deeds is furnished the several county assessors prior to the making of the annual assessment.

Any owner of taxable property who is dissatisfied with his assessment may appeal fro mthe decision of the county commissioners or board of revision to the Court of Common Pleas, and from that court to the Supreme or Superior Court.

Collection of County Taxes

In 1917 and quadrennially thereafter the voters in second class boroughs and townships *elect* a tax collector to serve for four years.

In townships of the first class, county taxes are collected by the township treasurer, who receives for his services 5 per cent of the collections.

The commissioners of counties containing cities of the third class, except in counties having 300,000 to 1,000,000, may appoint one person as collector of all county taxes for one or more wards in such city.

In cities of the second class, if the collection of county taxes is not regulated by special or local law, and in all other cities where collections are not otherwise regulated by law, all county taxes are collected by collectors appointed annually by the commissioners.

In counties containing 300,000 to 1,000,000 inhabitants the county taxes are collected in each city by a tax collector appointed annually by the board for the assessment and revision of taxes.

Township and borough tax collectors receive a commission for the collection of county taxes at a rate fixed by the local authorities, but not to exceed 5 per cent of the amount collected. Collectors appointed by county commissioners receive 5 per cent of their collections.

TAXATION IN TOWNSHIPS AND BOROUGHS

1. Townships of the Second Class

The Board of Supervisors are required to levy an annual tax, not exceeding 10 mills, for township purposes upon all subjects within the township taxable for county purposes (as previously noted) for the maintenance, repair and improvement of highways; for the construction and repair of culverts and bridges; for the purchase, repair and custody of tools and machinery; and for the payment of debts. An additional tax of 10 mills, known as the "township road tax," may be levied upon unanimous petition of the supervisors by order of the Court of Quarter Sessions.

In addition to the above the supervisors may levy and collect the following taxes:

(a) The State-Aid Road Tax—When the township receives the aid of the Commonwealth in the permanent improvement of its roads, under the Act of 1911 which established the State Highway Department, a road tax may be levied to pay the township's share of the cost of improvement and subsequently for maintenance of such roads.

(b) An annual tax, not exceeding 5 mills, for the purchase of ground and the construction of a town house for township uses.

(c) A tax for the construction and maintenance of a lock-up.

(d) Upon petition of a majority of the real estate owners, an annual tax, not exceeding 5 mills, for lighting the streets and public places.

(e) An annual tax for lighting the streets, highways, etc., in any village, upon petition of the owners of a majority of the frontage along any highway.

(f) An annual tax to pay the interest on the principal of bonded indebtedness.

(g) A tax, not exceeding 25 per cent of the township road tax, for the purchase of road machines, etc., necessary in the opening and repair of highways, bridges, etc.

(h) A tax on abutting property, on petition of owners, for fire hydrants and apparatus.

Appeals may be taken on township assessments to the Court of Quarter Sessions.

Township taxes are collected by the township collector, except on unseated lands or where collection is otherwise regulated by local or special law. For collecting the road tax he receives a commission of 2 per cent on all collections previous to June 1, and 5 per cent after that date. For collecting other township taxes he receives a commission, not exceeding 5 per cent, fixed by the Board of Supervisors.

If any taxpayers of any township or road district furnish all the material and labor necessary to make and repair the roads, no township road tax is collected for the fiscal year.

Persons liable to the township road tax who plant trees on the side of the public highway are allowed an abatement of $1 for every two trees set out, up to one-quarter of the tax. Owners of land with forest or timber trees may secure a rebate of 80 per cent of all township taxes, local and county, but not to exceed 45 cents an acre. Owners who plant trees not less than 300 to the acre may receive a similar rebate for 35 years.

II. Townships of the First Class

Taxes in townships of the first class are levied for the same purposes, at the same rates, upon the same subjects, and are collected in substantially the same way as in townships of the second class, except that the tax officials are known as township commissioners and township treasurers.

The commissioners are required to levy and collect an annual tax for township purposes of not more than 1 per cent upon all subjects taxable for county purposes.

In addition to the road and other taxes imposed in townships of the second class, the Board of Commissioners of townships of the first class are authorized to levy and collect a tax: (1) for building and maintaining a fire engine house; (2) for constructing a sewer system; (3) for caring for shade trees planted along the highways, not to exceed one-tenth of a mill.

III. Taxation in Boroughs

The burgess and town council levy by ordinance a tax for general borough purposes at a rate not to exceed 1 cent on the dollar on the classes of property taxable for county purposes.

They may also levy taxes for:

1. Fire protection, the tax not to exceed 8 mills.
2. Payment of interest and principal of bonded indebtedness.
3. Sinking fund tax to extinguish former bonded indebtedness.
4. Caring for trees planted on the highways.
5. Establishment and maintenance of a public library (annual tax not exceeding 2 mills).

Members (not less than three) of the borough council sit to hear tax appeals.

Except where otherwise provided by local law, the borough tax collector collects all borough taxes. His commission, not to exceed 5 per cent, is fixed by the borough. He makes his returns monthly to the borough treasurer.

Poor Tax—The overseers of the poor of any township or borough, after obtaining the approval of any two justices of the peace of the county, may "lay a rate or assessment not exceeding one cent on the dollar at one time upon all real and personal estates within such borough or township made taxable for county purposes."

TAXATION IN CITIES

I. Cities of the Third Class

Cities of the third class may levy and collect taxes, assessed upon all subjects within the city made taxable for county purposes, as follows:

1. An annual tax for general revenue purposes at a rate not to exceed 10 mills.
2. A tax, not to exceed 10 mills in any year, to pay bond interest and loans to support the city government, and to make necessary improvements.
3. An annual tax of not less than one-fourth of a mill or more than 3 mills for a sinking fund to extinguish the bonds and funded debt.
4. An annual tax sufficient to pay principal and interest on loans within 30 years.

5. A poll tax, not exceeding $1 a year, on all males above 21 years of age.
6. A tax to purchase lands and premises for public parks.
7. An annual tax, not to exceed one-tenth of a mill, for the care of shade trees.
8. An annual tax, not exceeding 2 mills, for public libraries.

Annually the council elects a city assessor, who must own at least $500 worth of real estate, and who must have lived in the city five years prior to his election. Council may appoint assistant assessors in the triennial year and in the intervening years, removable at the pleasure of council. Compensation is fixed by council.

> "The assessor shall make, or cause to be made, during the year of the triennial assessment for county purposes, a just and equal assessment of all property, real, personal and mixed, and occupations, within the city subject to taxation for city purposes, and a just and perfect list of all property exempt by law from taxation, with a just valuation of the same. * * * The assessor shall return annually a list of all male inhabitants over 21 years of age."

The council (including the Mayor) constitutes a Board of Revision of Taxes and Appeals. The assessor is required to give five days' written or printed notice to every taxable inhabitant of any increase in his assessment, together with time and place of hearing appeals. The board may require the attendance of the assessor and his assistants, or other citizens, for examination on oath. Appeals may be taken from the board to the Court of Common Pleas.

The city treasurer is ex officio collector of all city taxes—city, school and poor taxes. He appoints delinquent tax collectors, who must settle their duplicates within five months, paying over the amounts charged against them.

The schedule of unpaid city taxes is certified by the treasurer, as collector, to the city solicitor, who registers such taxes with the penalties thereon against the persons charged in the duplicates, in the office of the prothonotary, who keeps a separate book, called the city lien docket, for that purpose. The treasurer's compensation as collector is fixed by council between one-half of one per cent on all taxes paid before and 5 per cent after any penalty has been incurred.

II. Cities of the Second Class

Cities of the second class (Pittsburgh and Scranton) may levy and collect taxes "out of the estate, real and personal, subject to taxation within said cities," as follows:

1. A tax for general revenue purposes. (Machinery of all kinds is exempt).
2. A tax for the purpose of defraying the expenses of the city government, for the payment of loans, and for making necessary improvements. (Machinery exempt).
3. A "sinking fund tax" of not less than 1 mill or more than 3 mills.
4. A "separate indebtedness tax" sufficient to pay the interest and ultimately the principal of indebtedness of districts where an indebtedness existed prior to the Act of 1877. This tax is levied upon the taxable property of the district liable to taxation for such purposes.
5. A poll tax for general revenue purposes, not exceeding $1 a year, on all male inhabitants over 21 years of age.
6. An annual tax, not exceeding one-tenth of a mill, for caring for shade trees.
7. An annual tax, not exceeding 2 mills, for public libraries.
8. An annual tax sufficient to pay the interest on and the principal of its bonded indebtedness within 30 years.

Assessments

Assessments for purposes of municipal taxation shall be made by a Board of Assessors, not less than five or more than nine, as council shall fix by ordinance. Each member must have been a resident of the city for

at least ten years immediately preceding his appointment. All of them shall not be of the same political party. They are appointed by the Mayor holding office during his term. Council may, by ordinance, make all necessary rules and regulations for the government of the board.

The Act of May 11, 1911, abolished the classification of real estate for purposes of taxation, and provided that all real estate shall be assessed and taxed "at a uniform rate, based on its valuation, without discrimination or distinction of any kind, and no classification of such real estate for purposes of taxation shall hereafter be made."

The "graded tax law" of 1913, however, provides that the tax upon buildings in the years 1916-17-18 shall be 80 per cent of the highest rate of tax (the tax upon land) in those years; 70 per cent in 1919-20-21; 60 per cent in 1922-23-24; and 50 per cent thereafter, "so that upon the said classes of real estate there shall in any year be two rates of taxation."

The Board of Assessors "shall triennially make a valuation for all purposes of municipal taxation, and *may make a new assessment in any ward they deem necessary*, in any subsequent year, other than a triennial year.

Prior to 1909 assessments could not legally be made oftener than every three years. The new act made new assessments in other years permissive in any ward where the assessors deem it necessary. They have, therefore, full authority to make annual assessments throughout the city, as is the practice in Philadelphia, New York, Boston and many other large cities. A thorough-going assessment each year would undoubtedly put upon the rolls many thousands of dollars of taxable property.

The Board of Assessors sits as a board of revision to which any property owner may appeal from any valuation. From the decision of the board an appeal may be taken to the Court of Common Pleas, and thence to the Superior or Supreme Court. All taxes levied for city purposes are payable into the office of the city treasurer during the months of March, April and May.

Taxes not paid before June 1 are known as delinquent taxes, which are placed in the hands of the collector of delinquent taxes for collection, with 3 per cent added as a penalty for non-payment. In addition to this penalty, delinquent taxes bear interest at the rate of one-half per cent per month for each month or part thereof that they remain unpaid. The collector of delinquent taxes is appointed by the mayor with the advice and consent of council, and holds office during the mayor's term. Council may provide that the city treasurer shall collect delinquent taxes. The compensation of the delinquent tax collector may be either by a fixed salary or by fees, as council shall provide.

The collector, on or before February 28 each year, is required to prepare a list of all delinquents and publish the same twice in three newspapers in the city, one of which may be printed in German. If delinquent taxes are not paid, the collector shall file liens against the property. Upon the termination of his term of office, the collector is required to turn over to the city controller all the records of his office, with sworn itemized statements, by wards, of all unpaid taxes on the lists. The controller delivers these lists to the new collector.

The city treasurer may sell at public sale all property upon which the taxes have become delinquent in the manner prescribed by law.

(The question of delinquent taxes, tax liens, etc., is discussed in detail elsewhere in this Report).

III. Cities of the First Class

Philadelphia is the only city of the first class. It has not been deemed necessary to outline the tax system and the tax laws peculiar to that city. It may be noted, however, that in that city there is growing uneasiness and protest at the increasingly heavy burden of taxation borne by real estate. It is reported in the newspapers that the Philadelphia Real Estate Board is preparing to make an aggressive fight against any advance in the tax rate on real estate (*Public Ledger*, Oct. 1 and Oct. 8, 1916).

SCHOOL TAXES

The public school law of 1911 provides that each city, incorporated town, borough or township shall constitute a separate school district. The several school districts are divided into four classes:

District of the first class— population of 500,000 or more.
District of the second class—population of 30,000 to 500,000.
District of the third class— population of 5,000 to 30,000.
District of the fourth class—population of less than 5,000.

All taxes required by any school district are levied annually by the Board of School Directors for the purpose of: (a) establishing and maintaining the public schools; (b) paying any school indebtedness; (c) carrying out any provisions of the laws governing public schools.

The rate of the annual tax levy in districts of the first class (Pittsburgh is in this class) may not be less than 5 mills or more than 6 mills on all the property assessed and certified within the district, that is, on the same property as that upon which the municipal taxes are assessed.

It may be noted that in school districts other than those of the first class all subjects made taxable for county purposes—real estate, personal property, occupations—are taxable for school purposes. In Pittsburgh, which is a school district of the first class, real estate alone bears the entire burden of the school tax. In districts of the second, third and fourth classes, every male resident or inhabitant over 21 is required to pay an occupation tax in addition to any other tax he may pay.

The administration of the law relating to the assessment, levy and collection of the school tax is simple. Before November 1 each year the Board of City Assessors certify to the Board of School Directors an estimate of the total assessments for the ensuing year of all subjects of municipal taxation. Upon the basis of this estimate the school board makes its levy, which is certified to the assessing and collecting authorities, and collected at the same time and in the same way as other municipal taxes. The city treasurer serves as collector or receiver of the school tax, and the controller serves the school board as well as the city. The simplicity and economy of this administrative arrangement suggests its extension, with necessary modifications, to the assessment and collection of the tax on real estate within the city by both county and city.

Elsewhere in this Report reference is made to the fact that the assessment and collection of taxes for public school purposes in Pittsburgh is approximately one-half that for all municipal purposes, and the suggestion is made that the taxpayers may be willing to practice greater economy in school expenditures, notably in the item of new buildings, for a time.

Poor Taxes

In cities of the first and second classes the maintenance of the poor is met by appropriations from the general municipal tax, and no poor tax is levied. Such tax may be levied where poor districts created under special law exist either wholly or partially within the city limits.

ALLEGHENY COUNTY.

Statement Showing the Tax on Real Estate in Pittsburgh Compared With the Tax on Real Estate in the Remainder of the County; the Tax on Personal Property in the County as a Whole, and the Relation of These Taxes and the Receipts from Other Sources to Total Receipts of the County, 1913, 1914 and 1915.

	1913	1914	1915
REAL ESTATE:			
Taxable Valuation:			
Pittsburgh	$627,874,000	$737,600,470	$744,256,910
Rate (mills)	(a) 2.75	(a) 2.75	(b) 2.25
Amount of Levy	$ 1,726,654	$ 2,028,401	$ 1,674,578
Per Cent. of Total Levy	53.1	59.6	58.3
Remainder of County	$485,367,820	$393,334,450	$400,051,140
Rate (mills)	(c) 3.25	(d) 3.50	(e) 3.00
Amount of Levy	$ 1,577,445	$ 1,376,671	$ 1,200,153
Per Cent. of Total Levy	46.9	40.4	41.7
Total Amount of Levy	$ 3,254,099	$ 3,405,072	$ 2,874,731
Per Cent. of Levy Collected	(f) 75.0	(f) 77.0	(f) 77.6
Amount of Levy Collected	$ 2,440,574	$ 2,621,905	$ 2,230,791
Per Cent. of Total Receipts	26.4	30.7	32.0
PERSONAL PROPERTY:			
Taxable Valuation	$221,869,210	$238,169,180	$258,895,770
Rate (mills)	4.00	4.00	4.00
Amount of Levy	$ 887,477	$ 952,677	$ 1,035,583
Per Cent of Levy Collected	90.0	91.0	89.2
Amount of Levy Collected	$ 798,729	$ 866,936	$ 923,730
Per Cent. of Total Receipts	8.6	10.1	13.2
Receipts from Other Sources	$ 5,987,108	$ 5,053,388	$ 3,823,266
Per Cent. of Total Receipts	65.0	59.2	54.8
Total Receipts of County	$ 9,266,411	$ 8,542,229	$ 6,977,787

(a) 1.75 mills County Tax and 1 mill Road Tax.
(b) 1.25 mills County Tax and 1 mill Road Tax.
(c) 1.75 mills County Tax, 1 mill Road Tax, and 0.5 mill Poor Tax.
(d) 1.75 mills County Tax, 1 mill Road Tax, and 0.75 mill Poor Tax.
(e) 1.25 mills County Tax, 1 mill Road Tax, and 0.75 mill Poor Tax.
(f) Figures supplied by County Treasurer's office. Includes all taxes levied, except those on personal property.

REVENUE OF ALLEGHENY COUNTY[1]

1915

County Taxes	$1,477,228
Road Tax	1,111,257
Personal Property Tax	967,454
Fees for Liquor Licenses	94,815
Street Railway Bridge—Privilege and Tolls	58,992
Bond Account—Interest, sales, etc	1,903,575
Fees of Fee Officers	457,258
Appropriations to Sinking Fund	454,072
Interest on Daily Balances	107,912
Primary Election Expense—Reimbursement	72,435
Share of Cost of Improvement of State Highways and Roads	63,408
Advertising Fees	60,005
Other Items	149,375
Total	$6,977,787

(1) Pages 79 to 83, inclusive, Allegheny County Controller's Report for the year ending December 31, 1915.

TABULAR STATEMENT

Showing the Number of Taxables, the Number of Acres of Cleared and Timber Land, and the Amount at Which the Real and Personal Property, and All Matter and Things Made Taxable by the Laws of This Commonwealth Were Valued and the Amount of Taxes Assessed Thereon for State and County Purposes, in the Several Assessment Districts in the County of Allegheny Made Pursuant to the Several Acts of Assembly Relating Thereto.*

		Taxables	Cleared Land	Timber Land	Value of All Real Estate	Value of Real Estate Exempt From Taxation	Value of Real Estate Taxable	Horses, Mares, Geldings and Mules over the Age of 4 Years		Neat Cattle Over the Age of 4 Years		Value of Salaries and Emoluments of Office Posts of Profit Professions Trades and Occupations	Aggregate Value of all Property Taxable for County Purposes	Aggregate Amount of County Tax Assessed	Amount of Money at Interest Including Mortgages, Bonds, Notes Stocks, etc.	Value of Stages Omnibuses Hacks, Cabs, etc.	Aggregate Value of erty Taxable for State Purposes at 4 mills on the Dollar Including Money at Interest Stages, Omnibuses, Hacks, Cabs, etc.	Aggregate Amount of State Tax Assessed
								Number	Value	Number	Value							
Pittsburgh	1913	199,529	....	....	$ 887,109,620	$159,235,620	$ 627,874,000	12,630	$1,177,920	1,395	$ 45,190	$44,340,620	$ 773,437,730	$1,353,516	$173,178,525	$69,820	$173,248,345	$ 692,993
	1914	192,489	....	....	901,334,120	163,733,650	737,600,470	12,899	1,259,850	1,493	50,420	43,251,000	782,161,740	1,368,783	187,209,680	65,820	187,275,500	749,102
	1915	203,114	....	....	913,237,270	168,980,360	744,256,910	11,787	1,149,170	950	31,080	45,937,800	791,374,960	989,219	204,463,460	69,820	204,533,280	818,133
	1916	215,166	....	....	934,547,600	183,328,020	751,219,580	10,275	1,070,520	981	33,580	46,104,950	798,428,630	1,300,233	231,022,210	69,820	231,092,030	924,368
McKeesport	1913	16,705	....	....	39,759,140	4,077,550	35,681,590	758	71,630	60	2,310	3,331,100	39,086,630	68,402	2,789,090	800	2,789,890	11,160
	1914	17,259	....	....	40,218,570	4,240,530	35,978,040	762	68,500	87	3,660	3,444,900	39,495,100	69,116	3,052,700	....	3,052,700	12,211
	1915	16,568	....	....	40,217,920	4,324,960	35,892,960	690	63,860	60	1,980	3,258,850	39,217,650	49,022	3,652,900	800	3,653,700	14,615
	1916	17,421	....	....	41,027,300	4,303,560	36,723,740	681	67,670	63	2,170	3,419,380	40,212,960	70,373	3,929,530	800	3,930,330	15,721
Boroughs	1913	108,917	....	....	262,033,520	26,439,340	235,594,180	4,778	398,550	1,161	41,290	22,012,750	258,046,770	451,582	29,077,050	25,005	29,102,055	116,408
	1914	113,352	....	....	269,890,270	28,504,680	241,385,590	4,872	425,250	1,255	45,430	22,365,550	264,221,820	462,388	30,075,970	26,250	30,102,220	120,409
	1915	113,565	....	....	277,173,180	29,777,860	247,395,320	4,633	405,350	1,300	45,170	22,158,250	270,007,090	337,509	32,687,780	24,700	32,712,480	130,850
	1916	116,725	....	....	288,112,897	31,735,267	256,377,630	3,920	331,810	1,244	48,810	22,524,990	279,283,240	488,679	36,720,950	24,700	36,745,650	146,983
Townships	1913	62,411	358,571	9,790	132,250,220	18,158,170	114,092,050	12,062	973,700	12,791	440,920	9,432,990	124,939,660	218,644	16,728,920	.....	16,728,920	66,916
	1914	63,686	358,571	9,790	135,554,710	19,683,890	115,970,820	12,696	1,061,780	12,452	441,590	9,417,950	126,892,140	222,061	17,738,760	.....	17,738,760	70,955
	1915	66,505	358,571	9,790	138,121,350	21,358,490	116,762,860	12,418	1,047,350	12,401	448,460	9,760,230	128,018,900	160,024	17,996,310	.....	17,996,310	71,985
	1916	66,044	358,571	9,790	142,586,870	22,082,090	120,504,780	11,864	983,600	12,647	472,940	10,007,520	131,968,840	231,025	17,997,630	.....	17,997,630	71,991
Total	1913	387,562	358,571	9,790	$1,321,152,500	$207,910,680	$1,113,241,820	30,228	$2,621,800	15,407	$529,710	$79,117,460	$1,195,510,790	$2,092,144	$221,773,585	$95,625	$221,869,210	$ 887,477
	1914	386,786	358,571	9,790	1,347,097,670	216,162,750	1,130,934,920	31,229	2,815,380	15,287	541,100	78,479,400	1,212,770,800	2,122,349	238,077,110	92,070	238,169,180	952,677
	1915	399,752	358,571	9,790	1,368,749,720	224,441,670	1,144,308,050	29,528	2,665,730	14,711	529,690	81,115,130	1,228,615,800	1,535,774	258,800,450	95,320	258,895,770	1,035,583
	1916	415,356	358,571	9,790	1,406,274,667	241,448,936	1,164,825,730	26,740	2,453,600	14,935	557,500	82,056,840	1,249,893,670	2,090,310	289,670,320	95,320	289,765,640	1,159,063

*Report of The Board for the Assessment and Revision of Taxes of Allegheny County to the Secretary of Internal Affairs.

APPENDIX D

NEW YORK SYSTEM OF ASSESSMENT OF REAL ESTATE[1]

The head of the Department of Taxes and Assessments is a board of seven Commissioners appointed by the Mayor, who holds office at his pleasure. The Board of Tax Commissioners act as a board of review of assessments. Any person aggrieved by the assessment of real estate may make application in writing to the Board of Tax Commissioners to have the assessment reduced.

Assessments are made by Deputy Tax Commissioners. The Deputy Tax Commissioners are appointed by the Board of Tax Commissioners from a civil service eligible list prepared by the Municipal Civil Service Commission after examination of applicants for the position. Examinations are generally held about once in four years. The questions are of such character as to eliminate about half the applicants. No one unfamiliar with methods of real estate appraisal can successfully pass the examination. Deputy Tax Commissioners may only be dismissed from the department for cause by the Board of Tax Commissioners and only after a hearing has been afforded them to explain the charges against them. When appointed a Deputy Tax Commissioner is paid $2,400 a year. It is the policy of the department, when the appropriation is sufficient, to advance the salaries of the Deputy Tax Commissioners $150 every two years so long as their work is satisfactory until they have reached a salary of $3,000 a year; thereafter they may be increased to $3,250 or $3,500; generally, however, only after a very long term of service.

For the assessment of real estate the Board of Tax Commissioners divides the city into districts of appropriate size and assigns a Deputy Tax Commissioner to each district; each Deputy so assigned is assisted by a clerk. The districts vary in size and number of separate parcels of real estate to be assessed in accordance with the difficulty of the work and the number of parcels. Where values are high, as in Manhattan, districts are smaller in area and have a smaller number of parcels than where the values are lower. Where the area is very great, again the number of parcels must be reduced. At present the city is divided as follows:

Borough	Number of Districts	Average Number of Parcels.	Average Value per Parcel.	Average Area of Each District in Square Miles
Manhattan	16	5,881	$50,228	1.38
The Bronx	12	5,496	8,850	3.42
Brooklyn	23	9,271	7,336	3.39
Queens	18	7,451	3,310	6.52
Richmond	6	5,671	2,247	9.53
Total	75	7,221	$13,683	4.20

The Deputy Tax Commissioners are engaged throughout the year in studying the districts to which they are assigned and preserving memoranda of all evidences of value they can obtain. The assessment period fixed by law is from the first of April to the first of October. On the first of April each Deputy Tax Commissioner assigned to a district commences his field work and makes his first entry in his field book on that day.

The field book is the Deputy's note book and is arranged so that he may have before him the assessments for previous years and the land values for two years. The width of the page of the field book is 15¾ inches and its length is 19⅜ inches. * * *

[1] Report of Commissioners of Taxes and Assessments, City of New York (1914), pp. 91-103.

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During the next few days the Deputy usually traverses his district so that he may have the general conditions and changes since the last year in his mind. His first duty is to study the land values and determine from the evidence in his possession where the land value units must be changed. As he reaches conclusions concerning appropriate land value units he commences to prepare his land value maps.

Land Value Maps

The land value maps are so prepared as to show on every side of every block the value per front foot of lots of standard size and lying normally with reference to the grade of the street. In the suburban sections of the city, where the separate parcels are sometimes of several acres in extent and are unplotted, the unit placed upon maps represents the value per acre. The standard size of lots in Manhattan, The Bronx and Richmond is 25 x 100, and in Brooklyn and Queens 20 x 100. Throughout the city the standard depth is 100 feet and the units always have reference to the depth of 100 feet. If a lot is below grade and worth less than the unit would indicate, the unit nevertheless represents the value that the lot would have if it were on grade. The same statement is true if there should be so much rock on a lot that its actual value is greatly depreciated below the unit. On some streets the lots may all be shorter than 100 feet or deeper; nevertheless, the unit represents the value that the lots would have if exactly 100 feet deep. Some blocks are so short that the value of every foot of land is influenced by proximity to a corner; nevertheless, the unit represents the value that a lot would have at that location uninfluenced by proximity to a corner. When the units are thus properly determined every unit is comparable with every other unit because peculiarities of depth, topography and proximity to corners are eliminated and all units are reduced to the same standard.

When the value of any particular lot is determined proper account is taken of the depth, topography and proximity to a corner; also weight is given to variations from standard size. If a lot is but 50 feet deep its value would ordinarily be reduced to two-thirds of value that it would have if 100 feet deep, in accordance with the rule in common use, known as the Hoffman-Niell Rule. This rule assigns a certain proportion of value of a lot 100 feet deep to every depth less than 100 feet deep. Neither this rule, however, nor any other, is regarded as controlling upon the judgment of the Deputy. In one section of the city a lot 50 feet deep may be worth more than two-thirds the value of a standard lot, and in other sections it may be worth less. The rule is valuable as furnishing a guide to the commonly accepted proportions of value. If a lot is more than 100 feet in depth its value is computed and the judgment of the Deputy is guided by similar rules; one such rule assigns the following proportions of value to greater depths:

	In addition to value of lot of standard size.
For the first 25 feet beyond 100 feet	9 per cent
For the second 25 feet beyond 100 feet	8 per cent
For the third 25 feet beyond 100 feet	7 per cent
For the fourth 25 feet beyond 100 feet	6 per cent

If the lot under consideration has rock upon it, its value is reduced by some proportion of the cost of rock removal. In some cases there may be sufficient demand for rock to render it probable that the owner of the lot could procure the removal of the rock for less than the cost of removal. In some cases the cost of rock removal would be greater than the value of a standard lot at grade; in such a case it does not follow that the lot has no market value, but its value is much less than the value of a lot at grade.

If a lot is so much below grade as to require filling, its value is ordinarily depreciated by the cost of filling it, but it may be so situated that its value is actually greater than that of a lot at grade, because payment may be obtained for the privilege of using the lot as a dumping place.

The question of the extent to which a lot may be depreciated in value by being above or below grade must be considered with reference to all surrounding conditions. The unit, however, always represents the value that a lot would have if it lay normally with reference to the grade of the street.

When a lot is situated at the corner of two intersecting streets, its value is greater than when it is at some distance from the corner. The appreciation due to its corner position varies in accordance with the relative value of the intersecting streets and the character of the neighborhood. In a suburban section where the appropriate development is by the erection of detached houses, the appreciation because of corner position may not be more than 25 per cent for a lot 25 x 100; on the other hand, when the lot is at the corner of two streets, both of which are good retail shopping streets, the increment of value of a lot 25 x 100 may be more than 200 per cent over the value of an adjacent interior lot. The appropriate increment of value due to corner position must be considered with reference to the actual earning power and consequent selling value of corner lots in the particular section. The distance from a corner to which the influence upon value of proximity to the corner extends depends upon the character of development appropriate for the neighborhood. Where a lot 100 feet square is the appropriate size for a building the corner influence extends to the whole 100 feet; on the other hand, where a vacant plot 100 feet square at a corner would be improved with four or more buildings, the corner influence extends no farther than the width of the first lot.

When the appropriate improvement of a section demands lots of standard size, a lot of greater width than standard size has no more relative value than a lot of standard size, but where the appropriate building for that section requires a plot of greater depth the larger plot has a greater relative value than the standard lot. In such cases an appropriate addition must be made to the value above that indicated by the unit according to the size of the particular lot to be valued. In a tenement house section in Manhattan a lot 37½ feet wide is worth relatively more than a lot 25 feet wide, because a tenement house under the law cannot profitably be built on a lot 25 feet wide, whereas an economical tenement house can be erected on a lot 37½ feet wide. In a territory suitable for lofts a lot 50 feet wide is worth more than twice as much as a lot 25 feet wide, and generally a lot 100 feet wide would be worth more than twice as much as a lot 50 feet wide. The appropriate increase for plottage must be considered with reference to the actual conditions prevailing in the section where the lot is situated. An addition for plottage may be as great as 20 per cent, or even more. Conversely, if an appropriate improvement cannot be erected on a lot less than 25 feet in width a reduction must be made below the value which would be produced by the unit, varying with the degree of depreciation due to the usable character of the land in question.

When from all the evidence in his possession a Deputy has determined to the best of his ability the unit values throughout his district, it is his duty to prepare his land value maps and submit them to the Deputy in charge of the borough on or before August 1st for transmission to the Surveyor. Draughtsmen in the Surveyor's Bureau prepare fair copies of the maps sent in by the Deputies, when they are sent to the Supervisor of the City Record. The Supervisor of the City Record is the official in charge of the printing department of the city. He procures the publication of the land value maps in a book nine inches by fourteen inches in size and containing 142 plates. The Supervisor causes to be printed 500 copies of the land value maps for the use of the Department and delivers the plates upon the order of the Tax Department to the real estate publications known as the *Record and Guide*. The Tax Department has an arrangement with the publishers of the *Record and Guide* by which they print sufficient copies of the land value maps, to deliver one copy to each of their subscribers free of charge, and to supply the demand for maps by others at the rate of one dollar a copy. The purpose of the arrangement with the *Record and Guide* is the widest possible distribution of the maps to

those most interested, in order that the greatest publicity may be given to the unit value fixed by the Deputy Tax Commissioners.

The *Record and Guide* distributes the land value maps to its subscribers about October 1st, so that they may be ready for use by taxpayers and others during the grievance period.

Tax Maps and Lot Valuations

When the Deputies have determined their land value units, their next duty is to compute the value of every lot as shown upon the tax maps. The tax maps show the dimensions of every parcel of land in the city. The parcels are numbered by the use of three or four numbers. In Manhattan, The Bronx and Brooklyn the territory is all divided into sections, numbered from one up. There are eight sections in Manhattan, ten sections in The Bronx and twenty-five sections in Brooklyn. The territory is further divided into blocks, numbered consecutively from one up. Each block is bounded by streets or such permanent boundaries as waterways. The blocks are ordinarily 200 x 800 feet and may contain more than one plot of land entirely surrounded by streets. Within each block the lots are numbered consecutively, commencing at the lower left-hand corner looking north. The numbers run in order east, north, west and south to the place of beginning. A lot is described as Lot 1, Block 1, Section 1; such designation imports into the assessment roll the description, dimensions, area and location shown on the tax maps and on the annual record of assessed valuations.

Buildings and Other Improvements

It is the duty of the Deputies throughout the year to enter in their field books a record of all new buildings obtained from the Superintendent of Buildings of each borough, also the record of alterations for which plans are filed with the Superintendent of Buildings. The estimated cost of new buildings or of alterations is filed with the Superintendent and reported to the Department, and is used for what it may be worth. Its value is little more than an indication of the approximate character of the building or alteration.

When the Deputy considers the value of buildings he must take into account the depreciation of old buildings by age and obsolesence which may have taken place since his last assessment. In valuing new buildings he must rely largely upon the approximate cost of reproduction of such buildings. The knowledge of the cost of reproduction is gained by the study of the actual cost of producing certain particular buildings and from estimates of cost obtained from builders, architects and others. The Deputies are guided by the use of factors of value. The factors used by the Department are ordinarily the value per square foot of floor space instead of the value per cubic foot of contents. In the case of some of the most costly buildings both factors are used. Ordinarily, however, buildings of the same type differ but little the one from the other in height of floors and in arrangement. The factor per square foot of floor surface is more easily determined and is found to be a reliable mode of comparison. It is obvious that a standard unit must be employed in order that buildings of different size may be compared readily.

The use of a factor enables the Deputies and Commissioners to compare one building with any other immediately, without any further computation; for example, a loft building 50 feet wide, 90 feet deep and 10 stories high contains 45,000 square feet of floor area. A good loft building can be erected for $2.50 per square foot, and the cost of a loft building of this size would be $112,500. If it became desirable to compare this loft building with another which was 75 feet wide and 85 feet deep, it would be impossible to compare the total of each without reducing them to a common unit. If it were found that the latter building was assessed at $2.75 and the former at $2.50 per square foot, it would be possible to make comparison at once. The Deputies are required to set down in their field books the factor of value of all buildings in order that comparisons may readily be made.

Reports

Commencing June 1st each Deputy is required to report weekly until September 10th, except during his vacation period, the changes in the assessed value of every lot, together with the aggregate increase and the aggregate decrease for the week. Examiners check these increases for new buildings with the list of new buildings obtained from the Superintendents of Buildings. The examiners also check all changes of over one thousand dollars for the attention of the Deputy in charge. The aggregate of the increases and of the decreases for the season as reported weekly are computed after the last report, and the total increase must agree with the aggregate of the weekly increases, and the total decrease must agree with the aggregate of the weekly decreases as reported.

It is the duty of the Deputies to examine all properties which have theretofore been exempted from taxation with reference to changes of ownership or condition which may render such property taxable. They are required to make a report of all exempt properties by classes, of which there are about 57.

Before the 1st of October the annual record of the assessed valuation of real estate must be completed, and on the 1st of October it is opened to public inspection. * * *

Publication of Assessments and of Exempt Property

It is the duty of Deputy Tax Commissioners and their clerks to prepare the copy for the annual publication of the assessments of real estate. This publication is made in May by the Board of City Record. It is published as supplements to the City Record, one supplement for each section or ward. In the entire city there are about forty-eight (48) such supplements. The publication is a copy of the annual record of the assessed valuation of real estate, omitting only the size of the house and the number of houses on the lot.

It is the duty of the Deputy and his clerk to read and correct the proof of this publication.

The Deputies and their clerks have the further duty in July and August of preparing the copy for publication and valuation of all property exempted from taxation. They must prepare the copy and read and revise the proof for this publication.

Public Inspection of the Annual Record

During the month of October and the first half of November the annual record is open for public inspection, and during that time persons may make application in writing for the reduction of the assessed valuation of any parcel in which they are interested. During this time the Deputies attend at the counter on which the books are displayed and answer questions by taxpayers concerning assessed values. They are expected to explain the mode by which the assessed value of any property was reached, exhibiting the unit of land value and the method of computing the value of a particular lot, the factor of value used for the building, and any other information in their possession which the taxpayer may request. In many cases where assessments have been increased the explanation furnished to the taxpayer by the Deputy satisfies the taxpayer that his assessment is not in excess of the market value of the property and is in harmony with the assessment of other property in the neighborhood. If the taxpayer is not satisfied and desires to appeal to the Commissioners he is given a blank which contains appropriate questions to be answered concerning the character and value of the property. When such applications are filed they are recorded by the Deputy in charge of the borough and delivered to the Deputy who made the assessment with instructions to re-visit the property and report in writing on the back of the application the facts concerning the property and appropriate answers to the criticisms or objections made by the taxpayer. Upon such a re-inspection it not infrequently happens that the Deputy revises his judgment and recommends a reduction. If he does not recommend a reduction he is expected to correct the statements of fact made by the taxpayer or explain why his conclusions are erroneous. About December 1st the Commissioners commence to hear the applications of persons who asked for an oral hearing by the Commissioners. Oral hearings are only afforded when requested. In the great majority of cases applicants for a reduction do not ask to be heard in person.

At the hearings by the Commissioners the Deputy whose district is under consideration attends with his field book and map prepared to answer questions concerning the assessments under consideration. These hearings continue during the months of December and January. On February 1st the annual record of the assessed valuation of real estate closes, and during February the Deputies and their clerks prepare the assessment rolls. The assessment rolls are a copy of the annual record with certain details omitted. All that is really necessary in the assessment roll is the description of the property by lot numbers, with the assessed value. The assessment rolls must be finished in February. When they are finished they are signed by all the Commissioners. As soon as practicable in February the total assessed values are transmitted to the Comptroller in order that the tax ordinance may be prepared for submission to the Board of Aldermen. The Board of Aldermen meet on the 1st of March and pass the ordinance fixing the tax rate. Immediately the Deputies and their clerks compute the taxes which must be paid in respect of each separately assessed parcel of real estate. For this purpose rate cards are used, which show the amount of the tax on each amount from one dollar to one hundred and on multiples; in such fashion the computation of taxes is rendered as easy as possible.

During the year the Deputies and their clerks prepare new field books, and as early as practicable commence the preparation of the next annual record and new assessment rolls.

The Preparation of Tax Maps

At the time the City of New York as now constituted was created in 1898 by the consolidation of the cities of New York, Brooklyn, Long Island City and other municipalities, the Department of Taxes and Assessments was created, and it was made the custodian of all books, maps, assessment rolls, files and records relating to assessments which were in use in any of the municipal corporations consolidated. Prior to consolidation in a large part of the territory there were no tax maps at all. Assessments were made, as in most country towns throughout the State of New York today, by arranging in alphabetical order the names of the owners of real estate, and opposite the name of each owner a description of the various parcels of land owned by him. By the charter, which applied to the consolidated city, it was provided that assessments thereafter should be *in rem*, that is to say, against the land itself and not against the owner by name. It became necessary, therefore, to provide tax maps wherever they did not exist, and the charter gave broad general powers for the making of such tax maps and for assessment against the property itself. The Deputy Tax Commissioners were required by the charter to assess each parcel of real estate, giving "street, lot, ward, town and map number of such real estate embraced within their districts, together with the name of the owner or occupant if known." The Department of Taxes and Assessments was required to appoint a Surveyor, whose duty it should be to make necessary surveys and corrections of the ward maps and also to make all new maps which might be required for the more accurate assessment of real estate within the territory of the city.

In the old City of New York there had been instituted by Chapter 166 of the Laws of 1890 a system of recording and indexing instruments affecting land. In substance this system was established for the assessment of real estate by Chapter 542 of the Laws of 1892. This latter chapter provided for tax maps upon which are exhibited in sections and section numbers, block and block numbers, the separate lots or parcels of land taxed within each of the blocks. It is provided that the block once established shall not be changed unless it may be absolutely necessary by reason

of changes in the boundary lines. By the act of consolidation Chapter 542 of the Laws of 1892 was extended to apply to the whole city, but it was not made incumbent upon the Tax Department to establish the permanent tax maps required by this act immediately. The actual procedure adopted was to make what are called tentative maps for the suburban territory wherever no maps existed and to use the maps formerly in use wherever they were reasonably adequate for the purpose.

Since consolidation the permanent tax maps have gradually been made until today all of the Borough of Brooklyn is permanently mapped and all of The Bronx west of the Bronx River. As yet Queens and Richmond have tentative maps. Permanent maps will not be made in any section until the location of streets have been definitely determined, so that blocks may be laid out with a reasonable prospect that they may continue unchanged indefinitely. The permanent maps are made on a scale of fifty feet to the inch, but the tentative maps covering territory held in large parcels, much of it farm land, are made on a smaller scale, and the scale varies somewhat, being from eighty to two hundred feet to the inch.

The division on the permanent map into sections, as well as into blocks and lots, is advantageous, among other reasons, for the publication of statistics. The block is so small in area and the number of blocks is so large that comparison of assessment of areas requires a division into larger areas than are contained in blocks. The ordinary block contains about 160,000 square feet, being usually about 200 x 800 feet. The block must always be bounded by permanent streets or waterfront.

The lots within a block are numbered consecutively, commencing at the lower left-hand corner looking north; starting at that point the lots are numbered consecutively from west to east, then north, then west, then south to the place of beginning. If there is but one lot within the block it bears the number one. If thereafter a small parcel is carved out of the block it is not necessarily numbered two, but receives the number which it would be likely to receive if the whole block were cut into standard lots.

If a block is divided into lots of about standard size and the lots are numbered consecutively and thereafter one of the lots is divided, the part of the lot on the side of the lower number retains the old number and the new lot is designated by the same number with a fraction, or the old number with the addition of a letter. When two lots are consolidated the higher number is dropped. As changes occur in lot divisions the tax maps are altered by the use of different colored ink and the addition of the year for which the alteration is made. If two lots are consolidated the dividing line is crossed out by small crosses, a dotted line is drawn in the street in front of the lots in a semi-circle to indicate the consolidation, and at the center of that dotted line is inserted the year date. If a new lot is carved out of an old one the new division line is made with a different colored ink and opposite the line the year date is inserted. The tentative tax maps usually have very much larger divisions than the permanent tax maps to avoid the use of arbitrary lines and the splitting of parcels held in one ownership. A territory of considerable area may be designated as a plot, and when that territory is divided the lots are carved out of it and designated by numbers in the same manner as lots are designated within blocks of the size shown on the permanent tax maps. When a territory becomes settled and the permanent street lay-out is determined, the permanent tax maps are extended over the territory formerly covered by the tentative tax maps, the large plot is cut into blocks, and those blocks again into lots. When such a change is made cross indices are prepared, so that the lots shown on the tentative maps may be readily identified with the lots shown on the permanent tax maps.

For the use of the Tax Department there are two sets of maps, one set which is preserved in the offices of the several boroughs, and another set for the use of the Deputy Tax Commissions to carry with them in the field. The field maps are bound in volumes of just half the size of the office maps. In the front of the map volumes is placed a key map made to a scale of from three hundred to seven hundred feet to the inch, showing all of the territory comprised within that volume. The length of all

boundary lines is shown on the maps in feet and inches, and on valuable lots of irregular shape the area is shown in square feet. On larger parcels the area is shown in lots or acres.

As the tax maps are the basis of assessment of real estate, it is above all things necessary that they shall be accurate. The charter provides in reference to the assessment roll that "real estate shall be described therein by the numbers by which such property is designated on the tax maps and in the annual record of assessed valuations, and such numbers shall import into the assessment roll of real estate any necessary identifying description shown by the tax maps."

APPENDIX E

COMMUNICATION FROM THE DEPARTMENT OF SURVEYS OF THE CITY OF PITTSBURGH

By an Act of the Legislature approved February 24th, 1871, the City of Pittsburgh was authorized to establish a division for the registration of deeds, under the supervision of the City Engineer. The act provided that plans of the city be prepared, divided into suitable sections, so that the situation and dimensions of each property be shown, with the index numbers and names of the owners thereof.

The office is primarily for the convenience and assistance of the various departments of the city government having occasion to know the ownership and areas of the various tracts or parcels of land, the summation of which constitutes the 41.51 square miles embraced within the city limits. Among the more important functions of this office are the following:

FIRST. Furnishing the Departments of Property Assessors and the Board of Water Assessors with copies of all deeds transferring title.

SECOND. Checking and certifying to the last registered owner and frontages of all property owners petitioning to Council for various street improvements.

THIRD. Certifying to the correctness of list of property holders submitted by the City Solicitor prior to filing liens for municipal improvements.

FOURTH. Checking all plans, as to ownership of property, for use of the Board of Viewers for assessment of damages and benefits for all openings and widenings of streets, construction of sewers and general street improvements.

To these services rendered the various departments of the municipal government is added the very important service of furnishing information to the general public as to the ownership and date of registration of any particular tract, for which reliable information may be required for the purpose of the examination of title, purchase, etc. It is therefore important that this office should be able to furnish the various lists of property owners in as brief a period of time as possible and with the utmost degree of accuracy.

The Bureau of Deed Registry has in operation at the present time three distinct systems of indexing and registering. Two of these systems were in use prior to the annexation of the City of Allegheny; the third, entirely different and distinct, was in use in the City of Allegheny, and since annexation has been continued for that section. Each of these systems would serve the purpose with a fair degree of satisfaction in a smaller town or borough, but for use in a city of the size of Pittsburgh they are

all absolutely obsolete and, with the multiplicity of details connected with the various methods, it results in this important work being carried on in a hit-or-miss fashion without a definite system or comprehensive plan, and results in general dissatisfaction to the public and discredit to the municipal government.

In order to ascertain the name of the last registered owner of any piece of property, it is now necessary to refer back in the indices to the owners at the date of the passage of this Act (February 24th, 1871) establishing this department, and trace the subsequent owners to date. In many instances, depending upon the number of transfers made of a certain piece of property during this term of years, this method necessitates references to scores of owners before finally arriving at the last registration. The time wasted, as well as the probability of error, becomes apparent without further explanation.

During the past four years we have endeavored to impress upon the minds of the legislative and executive officers of the city the importance and necessity of providing sufficient funds to equip the Bureau of Deed Registry with an up-to-date system for the handling of the important work delegated to it in an economical and business-like way.

The most advanced method thus far designed for the registration of deeds in cities and the subsequent work of the offices charged with the assessments of property, etc., has been developed in the City of New York, and is generally known as the "Section, Block and Lot" system. This system is well adapted to the purposes of indexing and listing properties. The adoption of this plan by the City of Pittsburgh, with such modifications as may seem essential to meet local conditions, would place the Registry Department in position to give desired information readily and with a dependable degree of accuracy.

The "Section, Block and Lot" system can be briefly described as follows:

> In preparing the maps, the city is first divided into blocks, which are parcels of land, generally surrounded by streets or street and water fronts, and may contain one or more city squares, but generally the word block, as used in connection with this system in cities where the plan has been put into effect, refers to an area containing about 240,000 square feet, which is equivalent to a rectangular plot of ground 600 x 400 feet in area.
>
> The exact boundaries of every separately registered parcel of real estate in the city are shown on these maps. Blocks are numbered consecutively from one upward. The separate lots or parcels of ground within each block are also numbered consecutively from one upward for as many lots as are comprised within each block. The city is then divided into sections, each section containing not more than three or four square miles in area. The sections are likewise numbered consecutively from one upward.
>
> The length of all building lines is shown on the map in feet and decimals, and on valuable lots of irregular shape the area is shown in square feet; on larger parcels the area is shown in acres.

The stating of the number of the section, block and lot constitutes an absolute description of each parcel of real estate in the city, and can be used between the various departments of the city government as a short and reliable description.

In order to equip the Bureau of Deed Registry for this system it would be necessary to make new maps of the entire city. The present maps were based on ward lines and sub-divisions thereof. These maps are old and in a bad state of repair; in fact, the majority are so worn that it is impossible to read the index numbers, and if the Bureau of Deed Registry is to be continued new maps of some kind are essential, so that this is an opportune time to change the system.

One of the objects in the work of the primary triangulation of the city, now being done by the Division of Surveys, was to secure the necessary information from which to prepare accurate maps of the city, showing all street lines, water lines, etc. From these maps we could make an intelligent

sub-division of the city into sections and start the preparation of plans to be used as a basis for the Deed Registry maps. Duplication could be made of such maps by mechanical processes at a very small cost, which would serve useful purposes in all the departments of the city having use for accurate property maps.

The triangulation work has been delayed by insufficient appropriation for current needs, as well as for additional corps for this survey. We expect, by the close of the present season, however, to have work advanced so that preparation of plans can be commenced and, with slight additional appropriation for field and office forces, maps for the Bureau of Deed Registry, etc., can be prepared quite rapidly.

These new plans would be of the highest degree of accuracy, and any discrepancy in deeds presented for registration could be corrected and absolute areas certified to the Department of Assessors. This system would, furthermore, locate any plots within the city's limits which have not been registered and assessed and, in the light of the experience of the other cities where this system has been put into effect, this one item would add very materially to the assessed valuation of city property, and hence to the revenue derived from taxation.

In a report prepared for the City Councils by the New York Bureau of Municipal Research (1913) the following comments and recommendations were made for the registration of deeds:

> "This system is archaic and should be replaced by a properly designed card index, to which immediate reference to any piece of property could be made and the name of the last registered owner ascertained.
>
> "The present maps in the deed registry office are on the ward basis, references being made by street and boundaries and not by numbers.
>
> "We suggest that these maps be replaced with maps planned according to section, block and lot. This system is most efficient for the purpose of indexing and cataloguing all property located within the city.
>
> "We believe that the expense involved in establishing the section, block and lot system will be repaid many times over through the discovery of many parcels of property which heretofore have escaped assessment. This is particularly true in the light of the experience of New York and St. Louis."

END OF
TITLE